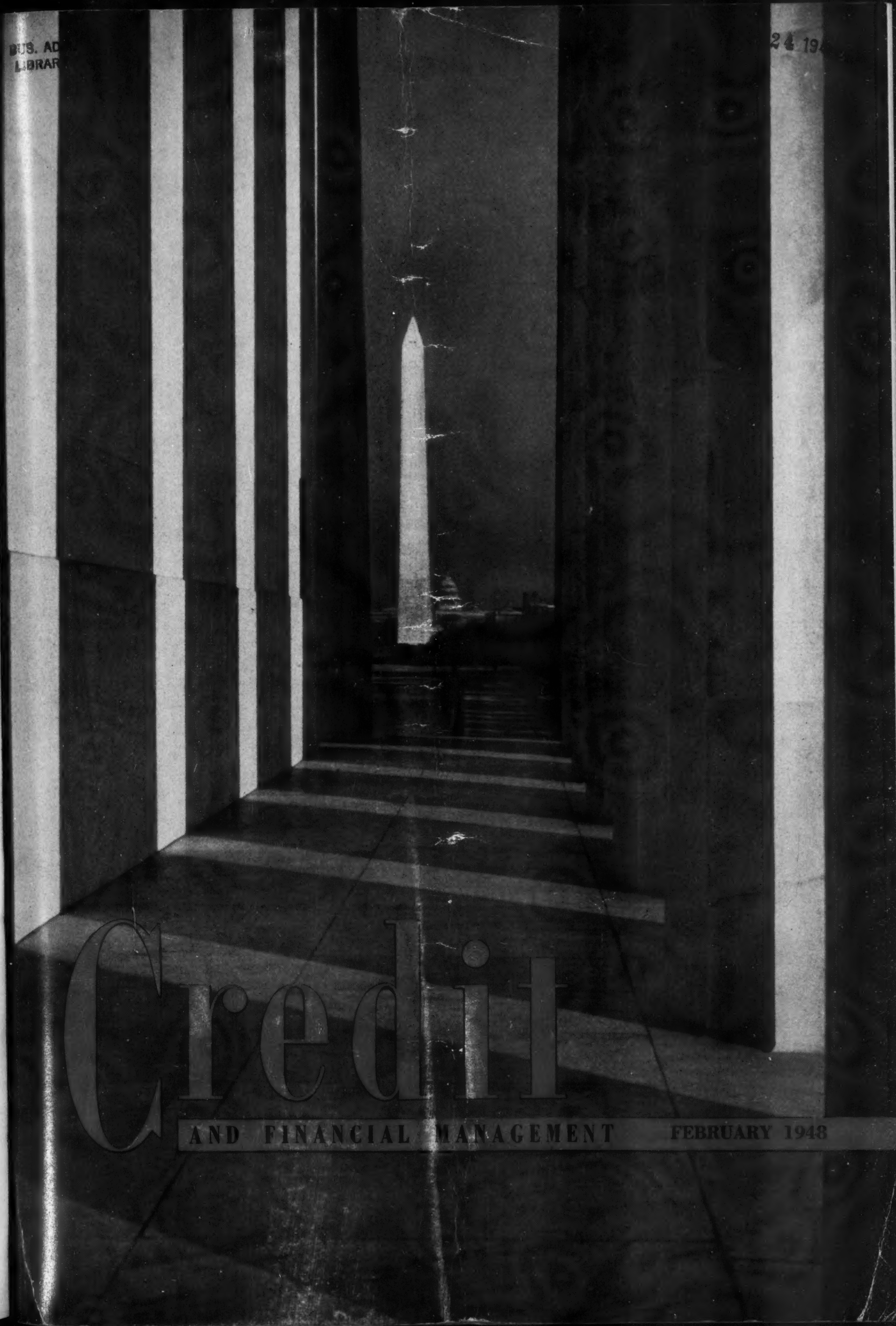


Credit

AND FINANCIAL MANAGEMENT

FEBRUARY 1948

Credit
AND FINANCIAL MANAGEMENT

Contents for February, 1948

Cover picture: The Washington Monument from the Lincoln Memorial. Photo from Free Lance Photographers' Guild.

Official Publication of the National Association of Credit Men

One Park Avenue, New York 16, N. Y. 1309 Noble St., Philadelphia 23, Pa.

Richard G. Tobin, Editor and Manager
Leslie E. Jones, Associate Editor

Midwestern Advertising Representatives:

Reinig and Shondell, 22 E. Huron St., Chicago, Ill.

ESTABLISHED 1898 VOLUME 50, No. 2

Published on the first of each month by the National Association of Credit Men, 1309 Noble Street, Philadelphia 23, Pennsylvania. Entered as second class matter December 22, 1933, at the Post Office at Philadelphia, Pa., under the Act of March 3, 1879. Subscription price $3.00 per year, 25c per copy; Canada, $3.50; all other countries, $4.00 postpaid.

Principles or Promises?

Too frequently, in our time, votes have been won by promises of subsidies, special privileges, or favoritism to this or that group. Those who sought election through a desire to serve the Nation's welfare have been less successful at the polls.

Of course you cannot subsidize everyone, everywhere, all the time without eventually facing a confiscatory burden of taxation. But, despite the fact that someone must pay the bills, politicians long on promises usually win elections. We blame the politicians but we, the voters, are at fault.

It is significant that in critical periods of history men of enduring statesmanship have had the courage to face facts honestly and tell their people of the needed sacrifices. England, for example, rallied in her war effort when she knew that the road to victory and self-preservation involved blood, sweat, and tears.

If our country is to continue to grow and prosper, we need to recapture the self-reliant spirit of our forefathers. We must rely on our own efforts more and on government help less. We must face the fact that after the destruction and dislocation of two World Wars real progress rests upon increased industry, greater sacrifice, and more personal courage. Otherwise, these government payments will increase to a point where free elections will become past history and this Nation will be headed towards currency repudiation or bankruptcy. Such a situation would not only bring financial disaster but it would liquidate every normal incentive and destroy our moral standards.

It is time to reward those who have the courage to tell us what we may not like to hear, but which we must recognize as the truth. Honesty and courage must replace pleasant and beguiling promises. The coddling days are over. We must work harder and regain the respect and confidence that comes from self-reliance.

HENRY H. HEIMANN,
EXECUTIVE MANAGER

Famous American Homes

BARTOW MANSION

★

The End of a Trail

Dining room, like the home's exterior, follows Grecian style of architecture.

WOLF packs ranged the woods and the rocks swarmed with rattlesnakes 300 years ago in the region where the Bartow Mansion now stands in New York's Bronx County. Harried settlers offered a bounty of twenty shillings "for every grown wolf killed by a christian but only half as much when it was destroyed by an Indian" and decreed that "one day every spring be improved for the destroying of rattlesnakes." Even more deadly than these natural enemies of man were hostile Indian tribes.

To this harsh country came Anne Hutchinson, vainly seeking a "Land of Peace" after religious persecution, but marauding savages killed her and all her family except for one little girl. According to legend, this sole survivor of the massacre was taken by the Indians and later married a chief.

Graceful staircase, one of many inventive details.

Today, in a community of suburban homes and apartment houses, modern parkways have replaced the trails of the long-vanished Indians. In the words of an old chief, "Your Empire State was once laced by our trails, trails that we have trod for centuries, trails worn so deep by the feet of the Indian that they became your roads of travel."

In Pelham Bay Park in the northernmost limits of New York City the Bartow Mansion marks, in a figurative sense, the end of a trail leading back to many families who figured prominently in the region's history, principally the Bartows and the Pells.

In 1654 Thomas Pell purchased 9,000 acres from the Indians and became first Lord of the original Manor of Pelham, comprising the present Pelham Bay Park and many nearby towns. Tradition has it that the deed of purchase was signed by the Indian chief who married Anne Hutchinson's daughter. A granddaughter of this union later married Thomas Pell, third Lord of the Manor, from whose eleven children many of the Pell family trace their descent.

This third Lord's grandson, John Bartow, bought the manor house in 1790. Aaron Burr, who had married the former Theodosia Bartow, was one of many famous guests entertained there by the wealthy and influential proprietor. In 1836 John's grandson, Robert Bartow, acquired the estate and built the present house which remained in the family's possession till 1888 when New York City purchased it for park development.

Restored and refurnished in the original period through the efforts of the International Garden Club, the beautifully proportioned mansion now stands as one of the few remaining links with the region's past.

The Home, through its agents and brokers, is America's leading insurance protector of American Homes and the Homes of American Industry.

☆ THE HOME ☆
Insurance Company
NEW YORK

FIRE • AUTOMOBILE • MARINE INSURANCE

Banker Says Trust Receipts Not Voidable Preferences Under 60-a

by GEORGE B. McGOWAN
Vice President
CORN EXCHANGE BANK TRUST COMPANY
New York

Author's Note: **In his favorable review of my book, "Trust Receipts, the variations in Their Legal Status," which appeared in the December issue of *Credit and Financial Management,* Mr. W. Randolph Montgomery suggested that it might be enlightening to have my views on the subject of Trust Receipts as preferences under Section 60-a of the Bankruptcy Act. This article is written in response to that suggestion.**

Trust Receipts are used for the same general purpose as are conditional sales agreements and chattel mortgages. Each is the means by which a creditor keeps a string on chattels or other personal property in the hands of a debtor, so that he (the creditor) may take possession of the property and sell it if the debtor fails to pay according to agreement.

Sellers of automobiles, radios, washing machines, refrigerators, and all other types of durable goods, use the conditional sales agreement, not because they doubt the buyer's honesty, but because they desire to be in a legal position which will prevent other creditors of the buyer from getting in between them and the article they desire to take back if the buyer does not pay. In essence, the conditional sales agreement is *evidence* that even though the seller has let the buyer have the article before he has paid for it in full, the ownership of the article is to remain in the seller until such time as it has been paid for in full.

Lenders of money take chattel mortgages from borrowers for the same reason. The chattel mortgage is *evidence* that the borrower and the lender both intend that the lender shall have a right to take from the borrower, the thing that is mortgaged, and sell it if the borrower fails to pay his loan in full. In effect, the borrower says, "this article can be sold for enough to pay off the loan if I don't repay you. Lend me the money and if I don't repay you as agreed, you can come and take this article from me and sell it." The chattel mortgage, therefore, is the means by which the lender can prove his right to take the article and sell it if the borrower goes bankrupt. If he did not have the chattel mortgage to prove his right, other people to whom the bankrupt owed money could claim that they had every bit as much right to sell it and pay themselves out of the proceeds of the sale.

Not Always a Credit Problem

The seller uses the conditional sales agreement in order to increase his sales. By selling on conditional sale, he is able to sell safely to people to whom he would fear to sell on open account. Lenders use the chattel mortgage in order to increase the income which they derive from lending money. They can lend safely on chattel mortgage to people to whom they would fear to lend without security.

Obviously, however, sales often are made on conditional sale to people to whom the seller would be willing to sell on open account, if he had to sell on open account in order to make the sale. Also, a great many loans are made on chattel mortgage to people to whom the lender would be willing to lend without security, if he had to do so in order to make the loan.

In other words, conditional sales agreements and chattel mortgages are not always taken because the seller or lender sees an absolute necessity for them. They often are taken simply because they can be had; and having a conditional sales agreement or a chattel mortgage is comforting, even when the debtor is financially strong enough to deserve unsecured credit. Credit men, therefore, should not decide that a man is a poor credit risk simply because he has bought on conditional sale or chattel mortgage.

A Protection for the Banker

Trust Receipts, too, are taken by bankers who would be willing to lend on a totally unsecured basis, if it were necessary to do so in order to make the loan. However, an important percentage of the trust receipts outstanding today do represent real trust receipt financing, i.e., the financing of inventory which the merchant or dealer would not be able to carry if it were not for the fact that the trust receipt gives the banker protection against the borrower's creditors. The trust receipt, also, is evidence that the lender has a right to take a specific asset from the borrower and sell it, if the borrower does not repay his loan. It can be seen then that conditional sales agreements, chattel mortgages and trust receipts are the means by which one creditor can prove that he has a better right than any other creditor to take a particular asset from the debtor and sell it in order to repay himself the amount which the debtor owes.

Space does not permit a full discussion of the reasons why a trust receipt is used instead of a chattel mortgage, but the whole theory behind the development of the trust receipt at common law was the fact

that trust receipt financing enabled the merchant or dealer to *acquire* through the use of bank credit, the possession of goods which he needed for the purpose of carrying on his business of selling goods, and which he could not otherwise acquire.[1]

A man who had property and wanted to borrow against it could use the chattel mortgage; but the trust receipt was needed by the man who wanted to borrow against property *which he did not yet have,* and the possession of which he wanted to acquire in order to sell it at a profit and repay the loan out of the proceeds of the sale. The loan was needed to pay for goods which the dealer wanted to buy, the bank paid the seller for the goods and then turned the goods over to the borrower under his trust receipt, that is, his agreement that he would keep the goods separate from his own so that the bank could take the goods back from him at any time until he had sold them, and if he did sell them and did not repay the bank, then the bank could take from him the money which he had received for the goods. The chattel mortgage could not be used in such a transaction because the borrower did not have anything to mortgage.

A Special Help for the Debtor

The fact that the trust receipt was needed to enable a merchant or dealer *to acquire* on credit *the possession of goods which he could not otherwise have acquired,* was the only reason the courts had for upholding the security interest (i.e., the right to take possession of the goods or their proceeds) of the trust receipt holder as against creditors in bankruptcy.

The question as to whether the borrower had had the goods before he borrowed the money and signed the trust receipt or whether he had been able to get possession of the goods only by giving a trust receipt was the deciding factor in most of the common law decisions. If the trust receipt had been given in connection with goods which the borrower had acquired without the banker's assistance, the courts generally ruled in favor of the trustee in bankruptcy. And when it could be proven that the holder of the trust receipt had enabled the bankrupt to acquire possession of goods which he had not previously had, the courts ruled in favor of the trust receipt holder.

The cases (the first of which was decided in 1843) show that the courts arrived at their decision by determining how the banker had acquired his security interest in the goods. If they found that he had simply loaned money to the bankrupt against goods which the bankrupt had had before the loan was made, then, as the holder of a trust receipt the creditor was out of luck. He should have made that kind of a loan on a chattel mortgage, and then should have recorded his mortgage as required by law. However, if it was found that the bank had extended credit by paying or promising to pay, the third party, and as a result of the payment or the promise to pay, the third party had shipped the goods to the bank's order and that the bank thereafter had released the goods to the borrower against his signing a trust receipt, the courts ordinarily ruled in favor of the bank which held the trust receipt.

Debtor Does Not Have Title

There was logic in such decisions, for if the bank had paid the seller for goods which the seller delivered to the bank, and the bank in turn released possession of the goods to the borrower on trust receipt, the borrower was in possession of goods to which he did not have, and never had had, title; and as the goods were not his, they should not be permitted to be used to pay his creditors. On the other hand, if the borrower had ever owned the goods, the only reason why the goods (if still in his possession) should not go toward the payment of all his creditors, would be that some creditor had acquired a right, superior to that of the other creditors, to take the goods and sell them in order to obtain settlement of his debt. As a chattel mortgage was the only way in which such a right could be acquired by law, when the debtor had owned the goods before he borrowed against them, people who tried to use trust receipts when they should have used recorded chattel mortgages lost out when their rights were tested.

The trust receipt, however, tempted a lot of lenders to use it in situations where a recorded chattel mortgage should have been used. The trust receipt did not have to be recorded and this led many lenders to attempt to use it instead of the chattel mortgage which had to be recorded. Although, as it has been said above, the fact that a man has borrowed on chattel mortgage does not of itself mean that he is a poor credit risk, borrowers did not like the idea of having their names appear in the chattel mortgage records.

The borrower's distaste for such publicity, plus the fact that trust receipts seemed a much simpler way of accomplishing the same result, led to a great misuse of the trust receipt. The result was that courts which had previously supported bona fide trust receipt transactions, turned against the trust receipt on the theory that it represented a secret lien and, as might be expected, injustice resulted. Confusion followed injustice, and finally the need for legislation which would guide the decisions of the courts resulted in the enactment, in 1934, of the Uniform Trust Receipts Act. Since then twenty-four other states have enacted similar legislation. The Uniform Trust Receipts Act is commonly referred to as U. T. R. A.

Public Record Required

U. T. R. A. requires the entruster to make a public record of the fact that he has a security interest in property held by the trustee. The entruster must file in a designated place a statement that he and the trustee are engaged in trust receipt transactions. Such a provision is desirable since the public record affords the trustee's creditors a means by which they can determine whether the inventory he has on his shelves or in his shop or showrooms, is his, or whether it is subject to a superior equity.

By definition, U. T. R. A. establishes the meaning of certain terms as follows:

> "Entruster" means the person who has or directly or by agent takes a security interest in goods, documents or instruments under a trust receipt transaction, and any successor in interest of such person. A person in the business of selling goods or instruments for profit, who at the outset of the transaction has,—as against the buyer,

---

[1] For a full discussion of trust receipt transactions see George B. McGowan, "Trust Receipts—The Variations in their Legal Status," The Ronald Press Company, 15 E. 26th Street, New York City, (1947).

general property in such goods or instruments, and who sells the same to the buyer on credit, retaining title or other security interest under a purchase money mortgage or conditional sales contract or otherwise, is excluded.

"Trustee" means the person having or taking possession of goods, documents or instruments under a trust receipt transaction, and any successor in interest of such person. The use of the word "Trustee" herein shall not be interpreted or construed to imply the existence of a trust or any right or duty of a trustee in the sense of equity jurisprudence other than as provided by this act.

"Security interest" means a property interest in goods, documents or instruments, limited in extent to securing performance of some obligation of the trustee or of some third persons to the entruster, and includes the intrest of a pledgee, and title, whether or not expressed to be absolute, whenever such title is in substance taken or retained for security only.

From the above it can be seen that an entruster is a creditor who by reason of a trust receipt transaction with the debtor (the trustee) has a security interest, i.e., a right to take specific property from the trustee so as to obtain a fuller settlement of the debt than he might obtain if he did not have such a right.

Requirements of U. T. R. A.

By defining what constitutes a trust receipt transaction U. T. R. A. prevents a true trust receipt from becoming the means by which one creditor can obtain an unfair advantage over other creditors. This is accomplished by a requirement that the entruster must deliver to the trustee "new value" i.e., some specific asset which the trustee did not own or possess before the trust receipt transaction, either in the form of goods, documents, or instruments, or new money. In other words, U. T. R. A.'s requirement for new value to be given to the trustee in every trust receipt transaction protects creditors of the trustee because there is just as much in assets available for distribution to the creditors of the trustee after the trustee executes the trust receipt as there was before he executed it. In this respect U. T. R. A. recognizes, as did the common law decisions, a distinct difference between a trust receipt right to take property from a debtor and a chattel mortgage right to take property from a debtor.

A creditor can acquire, through the execution by the debtor of a chattel mortgage, a right to take specific property from the debtor without having to give the debtor anything more in exchange for that right than an extension of time in which to pay a previously unsecured debt. Of course, if the creditor acquires such a chattel mortgage right at a time when the debtor is insolvent and within four months of his bankruptcy, the chattel mortgage can be voided as a preference; but the fact remains that a chattel mortgage, executed and recorded before the four months period begins, can deplete the amount of assets available to other creditors. A trust receipt cannot deplete the assets which were available to creditors before the trust receipt was executed.

A debtor who is on the verge of insolvency can favor one creditor to the disadvantage of other creditors by executing a chattel mortgage in exchange for an extension or a renewal of a previously unsecured debt. On the other hand, a trust receipt cannot be used to favor one creditor as against other creditors because U. T. R. A. requires the entruster to give an equivalent in value by way of new money or a new asset such as goods, documents or instruments. The amount of assets available to creditors of the trustee is no less after the trust receipt is executed than it was before it was executed. Therefore, since a trust receipt within the meaning of U. T. R. A. cannot result in a depletion of the assets which were available to creditors before it was executed, it could never be said with any truth that a trust receipt could be a preference in bankruptcy; that is, if the word preference means the favoring of one creditor at the expense of another creditor of the same class.

Preferences under 60-a

However, the word "preference" is defined in Section 60(a) of the Bankruptcy Act, and we must, therefore analyze the Trust Receipt transaction in terms of Section 60(a) if we are to determine whether a trust receipt is or could ever be a preference within the meaning of that Section. Section 60(a) reads as follows:

"A preference is a *transfer* as defined in this act of any of the property of a debtor *to or for the benefit of a creditor for or on account of an antecedent debt* made or suffered by such debtor while insolvent and within four months before the filing by or against him of the petition in bankruptcy, the effect of which transfer will be to enable such creditor to obtain a greater percentage of his debt than some other creditor of the same class. For the purpose of subdivisions (a) and (b) of this section, *a transfer shall be deemed to have been made at the time when it became so far perfected that no bona-fide purchaser could thereafter* have acquired any rights in the property so transferred superior to the rights of the transferee therein, *and, if such transfer is not so perfected* prior to the filing of the petition in bankruptcy, it shall be deemed to have been made immediately before bankruptcy." (italics supplied)

The word "transfer" as contained in Section 60(a) is defined by Section 1 (30) as follows:

"'Transfer shall include the sale and every other different mode direct or indirect of *disposing of or parting with property or with an interest therein or with the possession thereof or of fixing a lien upon the property or upon an interest therein,* absolutely or conditionally, voluntarily or involuntarily, by or without judicial proceedings, as a conveyance, sale, assignment, bailment, pledge, mortgage, lien, encumbrance gift, security or otherwise." (italics supplied)

Inspection of Section 60(a) discloses the fact that there cannot be a preference unless there is a *transfer of property of a debtor to or for the benefit of a creditor.* If there is no such transfer, there can be no preference. We, therefore, must inspect the meaning of what constitutes a trust receipt transaction under U. T. R. A. in order to determine whether there is any such transfer in a trust receipt transaction.

Essentials of a Trust Receipt

Under the heading of *"What constitutes a trust receipt transaction"* U. T. R. A. provides as follows:

1. A trust receipt transaction within the meaning of this act is any transaction to which an entruster and a trustee are parties, for one of the purposes set forth in Subsection three, whereby

(a) The entruster or any third person delivers to the trustee goods, documents or instruments in which

(Continued on page 18)

The Business Man's Glossary

Knowledge of Legal Terms Vital to Credit Men

By CARL B. EVERBERG

Attorney-at-Law
Boston

In every specialized field of human endeavor it becomes the natural thing to develop a peculiar "lingo" — peculiar, that is to say, to those outside the technical field in question. Listen, for instance, to the radio "hams" and you will soon discover that they seem to speak in a code unintelligible to you. The ordinary reaction of the outsider (the layman as to a technical branch of knowledge) is that specialists "hole up" in their own little world. And as a result further interest is lost on the part of the non-technical person; his accumulation of knowledge is stunted; much enjoyment is shut out; and the whole community suffers likewise because of the failure of a potential source of discovery and invention.

But all this is pitiful. The barrier which shuts out a person from acquiring knowledge and information in any such specialized fields is merely the failure to learn the meaning of a few unusual terms. The extent of terminology which distinguishes one branch of knowledge and science from another is usually rather small. A little research in a dictionary, a dip into an encyclopaedia now and then, would dissipate that barrier effectively. The list of strange terms is never very long.

Barrier Easily Broken

Many laymen shy from an article on legal matters because of the "mental hazard" consisting of a feeling of impotence in dealing with mysterious terminology. As a member of a university faculty, teaching law to students in business administration courses, the author has frequently run into this abstraction. There are not a few students who are literally scared at the prospect of tackling law courses simply because of a notion that they deal with mysteries beyond their range of comprehension. All that such people need is a short glossary of legal terms and they will find the field of law a pleasant pasture when once the forbidding fence of difficult terminology is broken down.

It is with the purpose of dispelling at least some of this fog, and of providing a clearer understanding of legal subjects, that a glossary of some legal expressions and terms is set out here. The list is not exhaustive. Indeed, it will require another issue or so to embrace a fairly comprehensive catalogue of them. The author seeks to go further than a mere definition of a term; where it seems necessary, a short commentary will be added with possibly an illustration thrown in.

Bailment—Delivery of personal property to another for the execution of a special object or purpose. In a true bailment the property delivered is to be restored by the *bailee* (the party to whom the delivery is made) to the *bailor* (the party delivering the goods). *Bailments* and *conditional sales* are frequently difficult to distinguish because those who draft conditional sales like to put them into the form of bailments to avoid the recording or filing which practically all states require of conditional sales, but not of bailments. However, the real criterion for determining the nature of the instrument is whether there is an agreement, express or implied, to pay the purchase price. If there is, it is not a bailment. Nevertheless, a bailment may contain an option on the part of the *bailee* to buy the goods at the end of the period of bailment which may be exercised (provided there is an agreement to return the goods first).

Bilateral—Having two sides. A *bilateral* contract consists of a promise (or obligation) to be performed by the offeror and the offeree. This kind of contract requires that an offer, or an order, be accepted by the other party before there is a binding contract. In a *unilateral* contract the offer contemplates an act on the part of the other party for acceptance. Example: A promises B $50 a month if B will promise to drive A to work every day. If B makes his promise there is a contract—a *bilateral* one. On the other hand, if A promises B $50 if he will drive him to work every day, and B does drive A to work, there is a contract — a *unilateral* one — when B does the driving. No promise is required of B, merely an act. The legal consequences are much different in the case of a *bilateral* and *unilateral* contract.

Bill of Lading—The written evidence of a contract for the carriage or delivery of goods, issued by the carrier. A most vital distinction lies in the fact as to whether a *bill of lading* is *straight* or *order* (negotiable). The latter kind is in effect a symbol of the goods themselves and therefore title to the goods are transferable by mere indorsement and delivery of the *bill of lading*. It is known as a *document of title*. It may be pledged for a loan. These characteristics

do not attach to a *straight bill.*

Capital (of a corporation)—A general term, frequently loosely employed, which means virtually all the resources, money and property owned or employed by the corporation for the production of wealth.

Capital Stock (of a corporation) —When viewed from the standpoint of the corporation, the amount paid in by the stockholders and for which the management is accountable to the stockholders. The amount paid in by the stockholders may consist of money, property and services. Viewed from the shareholder's standpoint, *capital stock* has a totally different meaning. The stockholder considers his share of the capital stock as a share of the corporation's everything—the capital stock in its literal sense, its surplus, its franchise, its hopes. It may have an entirely different worth than that reflected in the corporation's charter (which is always fixed); it may fluctuate in value from day to day, according to the market of the stock; it may have a value far above or below the value as shown in the corporate books. The terms, *capital, capital stock, capitalization,* are confused constantly in law, in accounting and in business. An excellent case making the distinctions clear is *The People ex rel. The Union Trust Co. v. Coleman.* 126 N. Y. 433.

Cestui Que Trust—A Norman French phrase denoting the owner of a beneficial interest in property, legal title to which is in another. The term is often applied to a shareholder of shares in a business trust.

Chattel—An article of personal property.

Chose in Action—A *right* to obtain possession of a thing as distinguished from the thing itself. Examples of choses in action, — accounts receivable, stock certificates, warehouse receipts, notes, checks. These may be bought and sold as well as articles of property.

Codicil—An instrument supplementing the terms of a will.

Composition (with creditors)—Agreement between a debtor and his creditors for the discharge of their claims at less than the full amount of the claims.

Consideration (of contract)—The benefit to the promisor or the detriment to the promisee without which there is no binding force to a contract.

Consignment — Though having other meanings, this word is generally applied to a transaction by which a principal delivers goods to an agent with authority to sell to others.

Conversion — Unauthorized act of dominion over personal property of another.

Covenant — A promissory warranty contained in an instrument under seal.

Coverture—the status of a married woman.

Cumulative Voting—A system of voting by which the elector, having a number of votes equal to the number of officers to be chosen, is allowed to use all his votes for one person, or to distribute them as he sees fit.

Curtesy—The life estate in lands of his late wife to which a surviving husband is entitled by the common law.

Defeasible — Subject to annulment.

Devise—A gift of real property by will.

Dock Warrant — Certificate of ownership of goods, given by the owner of the dock on which they are stored.

Domicile—The place where a person has or makes his home.

Donee—One to whom a gift is made.

Donor—One who makes a gift.

Dormant—Inactive.

Dower—That life estate in lands of her late husband, to which a widow is entitled at common law.

Drawee—Person on whom an order for the payment of money (draft) is drawn.

Drawer—Person who draws an order for the payment of money.

Eminent Domain—The right of the sovereign power to take property for public use.

Entity—In law, a natural or artificial person or group having an independent existence. A human being, a corporation are considered entities separate and distinct from each other though the natural person may own all the shares of the artificial person. A partnership is not generally considered as being an entity.

Equity—A system of jurisprudence within the regular system in which remedies sought for and obtained are other than money damages, i.e., injunctions, specific performance, recession of contracts.

Escrow—A delivery or deposit (usually of money, documents of title, deeds) to a third person to hold pending the occurrence of some contingency.

Estoppel—A doctrine of law which precludes a person from telling the truth if he did not tell the truth when he should have. Example, where someone knows credit is being furnished upon the report that he is a member of a certain partnership and he does nothing to correct the reliance placed by the creditor on the supposition, he may not later deny that he is a partner.

Another example. A wife accompanying her husband, sees him give a mortgage of property supposedly his, (but actually she owns the property); later when the mortgagee forecloses she cannot then claim the property not subject to the mortgage. She is estopped.

Execution—An order of court directing the enforcement of its judgment.

Fee—The absolute ownership of land.

Fiduciary—A person in a trust and confidence relationship having a responsibility to a beneficiary or beneficiaries.

Foreign Corporation—A corporation created by the law of another state or country.

Good Will—The benefit accruing to an established business from the likelihood that customers will continue to resort thereto. It can be bought and sold when the other assets of a business are bought and sold.

Grant—Transfer of title, generally to real property, but not necessarily confined to it.

Grantee—The person to whom title to property is granted.

Grantor—The person who grants the title to property.

Hypothecate—To make a contract of mortgage or pledge of property, usually without delivery of the articles. It is not a strictly technical term and other terms which have a definite meaning should be used, i.e., mortgage, pledge.

Credit Man Should Study Selling

Will Help Him Score His Best Efforts

By S. Z. PARK
Supt. of Sales Training
THE TEXAS COMPANY
Dallas, Texas

First—I want to say that I am not a creditman, have never been a creditman and know absolutely nothing about credit principles. My job is to teach sales analysis and the principles of selling to people within my own company.

It isn't necessary for me to know how to extend credit, set up credit limits, know the best and most effective way of collecting a high percentage of the outstanding accounts. I don't have to know these things, but you credit managers must know all those things and use that knowledge daily; and in addition, you should—if you are to be highly successful—be good salesmen, too.

As compared to you I am pretty lucky—I need to know my own job only . . . salesmanship and sales analysis; but you have to know your job and you should know mine too. *You* have to have a thorough knowledge of credits, and at least a working knowledge of the principles of selling.

Improve Selling Ability

Beyond any shadow of doubt there is a very close connection between credit work and selling—so then, it behooves each credit manager to improve his selling ability, as he improves his credit ability.

There are several prime principles involved in sales procedure. However, we shall talk about only a few of them today because certain selling principles are more closely associated with credit procedure than others.

First, let's keep in mind the fact that there are only three things that can ever be sold by anyone. . . . The salesman who carries his company's line of merchandise to the customer is selling products. The products may be manufactured by the marketing concern, or they may be purchased from the manufacturer for resale. Regardless of this, the salesman is selling *products.*

For sometime now President Truman and the State Department have been working diligently to sell the people of the United States and the countries of Western Europe on the Marshall plan—so here we have an example of the sale of a *plan.*

The credit manager has only one commodity for sale, and of course that is *service.*

So we see that there are only *three* types of things that can possibly be sold by the vendor, or bought by the purchaser. These are *products, plans* and *services.*

Everyone Buys to Benefit

There is one fundamental selling principle that we should keep in mind at all times. Everyone who buys anything voluntarily is invariably influenced by the desire to improve his or her situation—or improve the situation of others, such as members of the family, friends and business associates—or to secure some personal gain or benefit. So we can safely say that people buy to benefit or gain. But, people buy merchandise or a service and accept a plan only when they see enough benefits or gains coming their way to more than offset the price they will have to pay—either in money, or in time, work, energy, effort or thought. Let's see how such a sales analysis statement can be connected with credits and collections.

People buy on credit only when they can see certain desirable benefits and advantages or gains accruing from purchasing on credit. Such benefits, as deferring the payment for merchandise and thus eliminating the necessity of putting out the cash—this is especially true of people buying a large bill of goods or a person buying an automobile or a mechanical refrigerator, and other commodities involving large amounts of money. It is also true that the majority of farmers prefer to make *small purchases* on credit—and that a lot of people in the lower salary brackets, those having set incomes, buy on credit, making small weekly payments. All of these people use your credit facilities to keep from parting with the cash—and this, to them, is a very definite *benefit.*

Collecting Is a Tough Job

A tough job of credit-selling is done in the process of encouraging the lagging customers to pay. This may be done either by personal contacts or by correspondence. In either case a great deal of tact and diplomacy must go along with the contact because at this time you have the good-will of the firm in your hands.

Another time consuming, but highly important, job of the credit manager is employe-employer relations. This not only pertains to the people working directly under the supervision of the credit manager, but to the other people employed in the same office—from the boss to the office boy. Here again tact and diplomacy are a necessary adjunct to the credit managers' emotional make-up—if he is to do the right selling job.

Another responsibility of the credit manager is to maintain a feeling of close cooperation between

his office and the field selling force. Here, especially, tact and diplomacy must be displayed with the greatest skill and good judgment.

So, since tact and diplomacy seem to be so important to our added success, if we are to combine credit and collections with selling principles, let's talk about it for a few minutes.

Someone has very aptly said that "diplomacy is the art of letting the other man have your way." It is important and justifies our discussion because tact and diplomacy should be used with skill when trying to get prospective customers to open charge accounts with us. It should be used when endeavoring to get those same people to pay. And it should be used in employe-employer relationships and in dealing with salesmen in the field, who have contacts with your office. The rules applying to the use of tact and diplomacy may be employed successfully when dealing with your fellow civic organization members—the members of your church congregation and the members of the credit association. They may be used any time, any place, when you are in contact with other people and are confronted with the problem of influencing them to do that which you suggest or recommend.

Try Ever to Be Tactful

Be that as it may, the constant practice of the art of diplomacy is a very complicated process, requiring conscious and continual thinking and planning on the part of each of us. There *must* be a system for thinking and planning if we are to do the best job.

An analysis of the actions of people whom we know, and whom we consider to be tactful and diplomatic, will show that in all their conversations and correspondence they talk and write with the feelings of the other fellow constantly in mind. They always seem to be thinking more of their fellow man than of themselves. This is what we call working with the listener's viewpoint in mind.

Keeping of the listener's viewpoint in mind is important, when we realize that every person is more interested in himself than in us, and will be inclined to accept the suggestions and recommendations that we make only when they realize we are talking from their viewpoint and can promise them certain benefits.

So one simple rule for employing tact and diplomacy, and at the same time keeping the listener's viewpoint in mind, is to extend a *compliment* to the listener as early in the conversation or correspondence as possible.

For instance—let's say that one of the salesmen who has been with your firm for 15 years is sitting across the desk from you and is complaining because you don't see fit to raise the credit limit of one of his favorite customers from $350 to $700.

Since you have known this salesman well for a long time, and since you are the credit manager of your organization, you could very easily lean back in your chair and say confidently—"Now, Bill—you know we can't do that. You've been on the job a long time and should know our credit regulations. Nope, Bill—I can't do it. Sorry, but I just can't do it. Got anything else on your mind today?"

It's Not a Selling Job

Yes, That's one way the situation could be handled, but, would you be selling the fieldman on the fact that the credit department is a service organization, working *with* him or would you be causing a breach between the selling and credit departments by laying down a credit ultimatum?

Let's see how it would sound when giving the same answer in a tactful and diplomatic manner. We might say seriously and displaying real interest in Bill and Bill's problem: "Bill, you've been a salesman for a long time—and you have always done a good job on collections. For the past several years you and your territory have had a good collection record. You and I have always worked closely together on any credit and collection problems you have ever had, and you know we have always solved our problems—when there was any chance at all to solve them. Isn't that right, Bill?"

All right—there is the compliment, tactfully and diplomatically extended. The main thing to bear in mind is that the compliment can be used effectively and successfully only when it is true and genuinely deserved; otherwise, it will sound like cheap and transparent flattery, resulting in the opposite affect from that desired.

When the compliment has been extended in such a case, it should be followed immediately by a series of selling statements for the purpose of explaining the "reasons why" the credit limit can't be increased.

Listeners Point of View

These selling statements should follow a prescribed form, as we are still cognizant of the necessity for talking from the listener's point of view. As we said people buy to benefit. People willingly and voluntarily accept our recommendations and suggestions only when they see they *can* benefit. So—the first statement we make should tell Bill of a benefit he can expect from not having the credit limit increased. Then—having done that, tell "Bill" the "reason for" the benefit. Next—tell him the "reason against" complying with his request for an increased credit limit, and then follow that immediately by stating the "Losses" that he may expect to incur if the credit limit should be doubled. Then to carry the tact and diplomacy theme further, state another reason for *not* changing the credit limit . . . and conclude the statement by offering "Bill" another benefit.

Sell "Bill" on Benefits

Next we woud say—"Bill, you will have less trouble collecting from this customer (benefit) if we keep his credit limit where it can be justified (reason for). On the other hand, if we raise the credit limit to a point over and above his capacity to pay (reason against) he will get in deep water pretty quick (loss). He won't be able to keep his account in current or even satisfactory condition (loss) and as a result you will have to call on him frequently (loss) and ask for money on the account (loss). All of which means a great deal more work and worry for both you and the customer (loss) and may result in strained or ruptured relations between our

present good customer and our company (loss).

"So Bill you see if we follow good business principles (reason for) and leave his credit limit at $350, which extensive credit investigation shows is all he can carry (reason for), you and I, and our company and our customer will all be a lot better off (benefit). You can make collections easier and quicker (benefit), the company will get its money on time and in full (benefit), the customer will be operating his business within his financial capabilities (benefit), and as a result, he will eventually be better satisfied with you and your company (benefit).

"But—to prove to you, Bill, that I can see your side of the picture—I'll ask the credit association for a new and up-to-date credit interchange report on your customer immediately—Is that OK, Bill?"

When Sales Training Helps

That is the way a highly trained credit manager could and would handle Bill. When I say "trained," I mean a credit manager trained in selling principles as well as in credits and collections. Training of this type need not necessarily be secured from books, or from a high priced course offering some tried and proved successful methods. You can train yourself by simply consciously making a determined effort to be tactful and diplomatic in all your associations with other people.

Whenever possible, extend a well-earned compliment to the listener. Then keeping his viewpoint in mind, tell him of benefits or gains he may secure from following your suggestions or recommendations. Then follow these with valid "reasons for" those gains. Then compare the benefits or gains with the losses that will accrue as a result of following some method other than the one you suggest. Compare the "reasons for" the gains with the "reasons against" the gains which cause losses.

This is a very simple method for being tactful and diplomatic and tact and diplomacy are interpreted by your listener as "courtesy or politeness."

Now let's get on with a new thought . . . as I said . . . I am not a credit manager—never have been and know very little about credit and collection procedure.

So I am going to talk to you on a subject with which I am familiar—education.

Need for Constant Education

For the past seven years salesmen have not had to sell. Oh, of course they have had to make the rounds regularly and do *some* talking to get people to buy from them, and have had to handle a lot of complaints. But, for the past seven years, they haven't had to do any real old-time hard selling. That picture is now changing. Although none of us can accurately picture the changes of the economic structure in the world, in the United States as a whole, or even in our own particular trade area—we can rest assured that some drastic economic changes will take place. We can do one of two things, we can sit back complacently and say "Why do any long range planning? I've been a credit manager a long time and I'll know what to do when the time comes—I'm not worried."

That may be all right in many cases, but it is a foolish course to pursue as a rule. Consider the future economic situation from any angle you desire and you can only come to *one* inevitable conclusion, and that is that those men who have taken advantage of some educational program and have availed themselves of the benefits or gains to be derived from working cooperatively with such associations as their credit association—will be far better able to cope with *any* economic situation than the man who makes no effort to improve his credit and collection abilities and combine those abilities with selling or sales knowledge.

Seven Lazy Years

My own company realizes that for seven years its salesmen, as a whole, have not had any real tough selling problems. So we, for the past two years, have been training and educating our salesmen and office people to meet adequately the situations and conditions which are bound to come.

Although I don't know anything about credits and collections, I do know that since sales have been easy for the past seven years, it is reasonable to assume that credits and collections have been easy in the same proportion, and, as a result, you may have been placed in the position of using only 50% of your abilities, consequently, the remaining 50% of your abilities, may have been dormant for seven years—may be rusty or dusty—may need brightening or shining. This can be accomplished thru training and education.

It is my understanding, from the many good things I have heard about the National Credit Association, that it has some excellent educational facilities. No doubt you are taking advantage of many of the benefits and gains to be secured as a result of your association with this excellent organization—but, are you taking advantage of *all* the benefits the Credit Association is making available to you—taking advantage of them to the fullest extent?

That's The Way The Money Goes

The New York *Herald Tribune* of January 12th carried a letter to the editor which should be of great interest to our readers.

The writer had been doing some arithmetic and his conclusions were so surprising that he signed his letter with the pseudonym "Dumbfounded." Here is what he discovered. He has an employee to whom he pays a stipend of $2,400 per annum, less withholding tax, or $2,085 net. The employer must pay this salary out of the top section of his income, on which he must pay a 47% tax; so, in order that the employee may have his $2,085 the employer has to budget $4,530.

Now the employer's income comes from investments. The company, from whom he collects the $4,350, necessary to provide $2,085 to the employee, has to pay a corporate income tax of 38%. So, to provide the employer with $4,530 which he needs to pay his employee $2,085 it would mean that the company must earn at least $7,300. In short, the company, distributing $7,300, provides one employee of a stockholder with $2,085 and the government with $5,215. And there is talk of hiking the corporate tax to 50%!


EDISON
EAR-TUNED JEWEL-ACTION
OFF
Your short cut to a clear desk lies through the Edison Electronic Voicewriter . . . the machine that lifts the brakes from your dictating speed. Exclusive Ear-Tuned Jewel-Action gives a clear channel to the *higher* voice tones responsible for *word* recognition . . . helping your secretary to keep in step with your fastest dictating pace, without costly, time-wasting errors. *No other instrument matches Edison understandability* . . . because *only* Edison has Ear-Tuned Jewel-Action.
Thomas A. Edison
Only the EDIPHONE MAN brings you the exclusive advantages of Ear-Tuned Jewel-Action
PHONE "EDIPHONE" in your city or write Thomas A. Edison, Incorporated, West Orange, New Jersey. In Canada: Thomas A. Edison of Canada, Ltd., Toronto 1, Ontario.
EDISON ELECTRONIC VOICEWRITER

Don't Let Profits Deceive You

The Financial Aspects of "Break-Even" Points

by GEORGE H. BLACKETT
Partner
BLACKETT & DALBY
New York

Most of us have been taught certain things about American business from our childhood on. We seem to have accepted some of these things as unchanging truths.

We have been told that the great secret for success in American manufacturing is mass production, which, of necessity, reduces unit manufacturing costs, so that if we are producing 500 units of an article each day and increase output to 1,000, the 1,000th unit will cost much less to make than the 500th.

We have been told that the sales of our product will rise if we reduce prices and conversely, that when prices rise, our sales will decrease.

We have been told that if we can reduce the prices of our goods, this lower price will cause our sales to expand and thereby permit greater production. Greater production will, in turn, reduce costs so that we will then have a larger aggregate profit than we had before. I cannot remember the number of times that I, as a schoolboy, heard the history of the Ford Motor Corporation cited to illustrate this point.

We have been led to think of the accounting figure called *net profit* as the measure of achievement and to regard that figure as a fund available for the payment of higher wages and higher dividends.

In the words of a once popular song, "It Ain't Necessarily So"; or perhaps it would be better to say that these things are true for certain businesses and under certain conditions; not under others.

It is certainly obvious that products turned out in overtime hours at time-and-a-half or double-time rates for labor are not low cost. It is also clear that the character of a company's costs does much to determine the extent of unit cost savings from an increase in output and, therefore, to determine the effect on profit of an increase in volume. In a business where overhead is low in relation to direct manufacturing costs, it takes a very substantial rise in the volume of business to offset a minor decrease in price.

Generalities Persist

The past few years should have made it equally clear that rising prices and expanding volume may go hand-in-hand during a period of inflation in the money supply and for some time thereafter. We should remember that falling prices did not prevent a shrinkage in business volume in 1930-1932 or again in 1938.

It is no doubt equally evident that a business may have a large reported net profit and at the same time have expanded financial requirements which prevent such profits from being present as a cash fund for distribution as wages or dividends.

Nonetheless, these generalizations about American business which we have been taught from our childhood seem to underlie the attitude of labor leaders in insisting that higher wages can be paid from industrial profits without raising prices. Possibly these same generalizations underlie some of the reasoning of the President's Economic Advisory Committee which appears to feel that there is assurance of lasting prosperity and large business volume to be found in price reductions. They have been advanced as axiomatic time and again in the arguments about inflation and price controls. Nowhere does there seem to be a sharply defined understanding of the basic relationships of prices, business volume, wages, other costs, and profits.

Net Profit Defined

Just what is a *net* profit?

We know how the figure which appears on income accounts is obtained. The accounting figure for net profit is the residual item resulting through the reduction from the gross receipts of a business during a fiscal period of all of the costs of doing business, including federal income taxes. More realistically, the annual profit of an enterprise is the net gain in assets accruing from a year's operations. This net gain in assets may take the form of an increase in slow moving accounts and notes receivable, or in inventories or in plant or equipment. It may also take the form of a reduction of indebtedness.

It is seldom in a form where it is available to be paid out in wage increases or as dividends. Profits, therefore, are not all freely disposable, and the proportion available at the discretion of the directors of companies for distribution or other uses may make up a minor part of the recorded accounting figure for net profits. To be realistic, therefore, there are two sets of break-even points to consider; first, the break-even point for the accounting figure of net profits; and second, the point where what might be described as "discretionary" profits disappear.

The present day preoccupation with this accounting figure for net profit on the part of labor leaders

---
Excerpts from an address given before the Conference on Finance of the American Management Association, New York, N. Y., at the Hotel Biltmore, New York City, January 15-16.

who insist that higher wages can be paid out of industrial profits reflects either misunderstanding of the nature of profits as a net gain of assets or a deliberate misinterpretation. The same comment applies to those who make our tax laws and I think applies to a good many business managers as well, who share a fallacious attitude toward the significance of reported profits. The stock market, however, appears to reflect a certain skepticism on the part of investors toward the reality of current net profits.

Establishing Break-Even Point

This preoccupation with the accounting figures for net profit is, I think, unsound, but even this accounting net profit is an extremely vulnerable thing. Therefore, let us first consider break-even points from the accounting point of view. By a break-even point we mean, of course, that condition where the factors of prices, business volumes, and costs are so balanced as to return no profit (in the accounting sense) to owners and proprietors of business enterprises.

It is not difficult to establish the break-even point for a single, one-product business. It requires a little ingenuity to identify the break-even point for all manufacturing corporations as an aggregate and to establish it in such a manner that effects can be measured of a change in wages paid, in business activity, in prices (both for finished goods and initial materials purchased).

There are three factors that must be established. These are:

1. Total receipts—(i. e. total sales plus investment income).
2. Total "Cost of Goods Sold"—(those direct operating costs of which payrolls and initial material costs are major constituents).
3. That overhead charges—(all deductions from total receipts other than Cost of Goods Sold allowed manufacturing corporations in computing their taxable net income).

The sum of 2 and 3 equals total costs (excluding federal income taxes) in any year. This sum subtracted from total receipts leaves net income before payment of federal income taxes. Federal income taxes are unquestionably a business cost, but for purposes of simplicity are

(*Continued on page 22*)

Field Warehousing and Credits

A Company Executive Explains Operation of Plan

By LOUIS A. BENOIST
President
LAWRENCE WAREHOUSE COMPANY
San Francisco, Calif.

During the war and shortly thereafter, it was possible for a firm to engage in selective selling, to pick and choose its accounts at will, excluding those concerns whose financial stability it had the slightest reason to question. Today with merchandise somewhat more abundant the situation is changed. With a renewed approach to competitive selling, sales organizations again are faced with the necessity of finding markets and credit men are again faced with real credit problems.

With this situation has come another that has its headaches, namely: the increasing growth in the number of business failures. Because of the many marginal credit risks which firms are obliged to take and also because of the number of business failures, actual and potential, credit men have become increasingly conscious of the security of their positions, or the lack of it, and have developed a greater interest in the field of warehousing than ever before.

Whereas field warehousing has been used in the past principally as a vehicle to assist firms in the borrowing of money on their inventories, today it becomes a vehicle in the distribution of goods, to assist not only the buyer of the inventory, but also and principally the seller.

Credit executives have begun to feel the need for controlling merchandise sold on credit after it leaves their own premises and during the time it remains on the premises of the buyer before it is used in manufacture or is sold in the normal course of business. Field warehousing, as will be brought out later in this article, brings a branch public warehouse to the merchandise on the premises of the buyer, giving to the seller of the merchandise the third party control which the law in most jurisdictions holds necessary if the seller is to protect his position as a preferred creditor as to that merchandise.

Seller Must Be Protected

While it is an accepted theory in credit philosophy that credit executives do the best job who approve the largest number of marginal risks safely, nevertheless, it is not to be expected that such risks will be approved willy-nilly on a basis that might result in jeopardizing the security position of the seller.

Mr. Henry Heimann, Executive Manager of the National Association of Credit Men, writing in the July Digest of the Committee for Economic Development, stated that "The objective of modern credit executives is to attempt to satisfy every reasonable credit request, and whenever possible, to help make acceptable, those which appear to be questionable."

The purpose of this article is to point out how the use of Field Warehousing can, in many instances, help make questionable credit risks wholly acceptable.

Perhaps one of the better ways to explain the use of Field Warehousing is to illustrate it. As this article is being written, there is under discussion a situation involving one of the largest firms in the United States operating nationally. This firm advances to a purchasing agent. $100,000 in cash with which to purchase throughout the United States, a certain difficult-to-obtain raw material. The agent also operates a refinery in which the raw material is processed for the firm's account. When the material is purchased with funds advanced by the firm, the agent ships the material to the refinery on a bill of lading drawn to his own order, and upon presentation of evidence of this the firm reinstates the cash purchase account. The material purchased with the firm's money, until delivered in finished form from the refinery, is in the possession of the agent alone. The firm is completely without protection as to all of the material purchased. Depending upon the volume of purchases of raw material in the field, the length of time consumed in shipment, in awaiting refinement, and during the process of refinement, the amount of money advanced to the agent, without protection, could be several times the $100,000 actually advanced to him at the outset. The desire of the firm is to control the material on the refiners premises in some way that will protect its interest.

Third Party Management

This can be accomplished in the following way, and this is the procedure which is presently under discussion. A Field Warehouse company will take a lease on the areas, whether open storage or buildings, in which the raw materials are stored. The warehouseman will install a branch public warehouse in a manner usual in the industry, through the erection of signs and barriers, where necessary, the installation of locks and the employment and bonding of qualified personnel. He will then issue his certificates covering the goods, commonly known as warehouse receipts in favor of the firm, and will take back from the firm specific instructions as to how, in what quantities and when the material is to be released to the agent for processing.

The warehousman takes complete responsibility as provided in the Uniform Warehouse Receipts Act for the safe custodianship of the raw material for the firm's account. By so doing, the warehouseman, acting as custodian, relieves the owner of the material from the possibility of attack by creditors in the event of bankruptcy or assignment, and against the possibility of conversion. All materials shipped by the agent, instead of being shipped to his order, could then be shipped to the field warehouseman for the firm's account. I repeat, when the agent purchases raw material in the field, with monies advanced to him by the firm, such raw materials should be consigned on a bill of lading basis to the field warehouseman for the account of the firm. In this way, never at any time does the agent have control of more than $100,000 which the firm has pre-determined is the maximum of credit that should be extended to him.

As an Aid in Distribution

One of the major oil refining companies, anticipating a shortage in transport, and for that matter, a shortage also in supplies of fuel oil, and fearful of disruption in what transport might be available as a result of weather, has been encouraging its distributors to maintain supplies at capacity. I suspect that other refineries have been doing about the same thing.

It is recognized that not all distributors have the financial strength to carry fuel oil supplies at capacity. Some of them are able to borrow enough from their banks on the security of their pledged inventory, but others find their bank credit stretched to the point where their banks are unwilling to go farther. The situation then resolves itself into one where if the refinery wants to have its supplies in the hands of its distributors, it must make it possible for them to carry the oil. The only alternative is to carry the credit themselves.

The refinery referred to is requiring that field warehouses be installed in the tank yards, or on the tank farms of its distributors, and it then takes back field warehouse receipts in its favor covering oil stored in

(*Continued on page 22*)

TRUST RECEIPTS

(*Continued from page 6*)

> the entruster (i) prior to the transaction has, or for new value (ii) by the transaction acquires or (iii) as the result thereof is to acquire promptly, a security interest. . . .
>
> (b) The entruster gives new value in reliance upon the transfer by the trustee to such entruster of a security interest in instruments or documents which are actually exhibited to such entruster, or to his agent in that behalf, at a place of business of either entrustor or agent, but possession of which is retained by the trustee.

From the above the reader will see that there are only two types of transactions which are trust receipt transactions within the meaning of U. T. R. A.

The first type of transaction (described under (a) above) is the same type of transaction which was upheld at common law—a tripartite transaction which involves three parties:

1. The party who wants to acquire goods for the purpose of re-sale but needs a banker's assistance in order to obtain them.
2. The banker who at the request of the first party pays money to a third party in order to induce the third party to part with goods for which the first party has promised (in order to induce the banker to pay the third party) to give the banker a trust receipe.[2]
3. The third party who because of the banker's payment delivers the goods to the first party when the banker so instructs, or delivers them to the banker who in turn delivers them to the first party.

In such a transaction there is no preference because there is no transfer by a debtor to or for the benefit of a creditor. A debtor in such a trust receipt transaction gets possession of property which he did not previously own nor possess. It was only because there was no transfer by a debtor to or for the benefit of a creditor that this type of transaction was the only type of transaction which was generally upheld by the courts at common law—and lest we forget, such transactions did not even have to be recorded.

Differences in Types

It seems safe to say then that an entruster in a tripartite trust receipt transaction need have no fear of section 60(a) because there is no transfer from a debtor to a creditor in such a transaction and therefore the transaction does not come within the meaning of section 60(a).

However, the second type of transaction (see (b) above) does involve a transfer which might appear to be a transfer by a debtor to a creditor. Being a bipartite (two party) transaction in which the entruster acquires his security interest from the trustee[3] instead of from a third party (as in the tripartite transaction), it might be thought that the transfer is a transfer by a debtor to a creditor. It can be argued more logically, however, that the transfer in a bipartite trust receipt transaction is not a transfer by a debtor, because the party who makes the transfer (he later becomes the trustee) is not a debtor at the time he makes the transfer—he is only a prospective debtor. He makes the transfer in order to *induce* a loan. Furthermore, the transfer is not a transfer to or for the benefit of a creditor because the party to whom the transfer is made (he later becomes the entruster) is not a creditor at the time the transfer is made. He becomes a creditor after the transfer is made; in other words, he is *induced* by the transfer to become a creditor.

Let us consider the transfer which is made in a bipartite trust receipt transaction step by step, as it occurs every day in the week. The bipartite trust receipt transaction commences when the first party requests the second party to make him a loan against documents; usually bills of lading or warehouse receipts. Although the first party may already owe money to the second party as a result of previous loans made, each of the parties is, as to the other, insofar as the immediate transaction is concerned, not a debtor and a creditor, but a prospective debtor and creditor who may never become a debtor and creditor in the transaction contemplated if one or the other decides to drop the matter.

Steps in Bipartite Trust

After inspecting the documents and finding them in proper form the banker agrees to make the loan. He then asks the prospective borrower to make the necessary transfer, i.e., to endorse the documents and sign a collateral note by which the prospective borrower agrees that in consideration of the loan to be made, the prospective borrower agrees to repay the loan when due and gives the banker a right to hold the documents until the loan is repaid. He also agrees that if the loan is not repaid when due, the banker shall have the right to sell the documents of title and repay himself from the proceeds of sale.

With such an agreement (collateral note) in hand, together with the endorsed documents, the banker by crediting the prospective borrower's account brings into being the relation of debtor and creditor. It is important to note, however, that they become debtor and creditor *after* the transfer, i.e., after the endorsement of the documents and the signing of the collateral note. Therefore, the transfer is not within the meaning of Section 60(a) because the transfer is not made by a debtor nor is it made to a creditor. No debt exists before the transfer is made and so there is no transfer for or on account of an antecedent debt. The fact that the creditor later releases the documents to the debtor under a trust receipt can be disregarded insofar as Section 60(a) is concerned because the release on trust receipt occurs after the creditor has perfected his security.

Those who are familiar with the Klauder Case[4] may argue that the transfer described above is similar

---

[2] U.T.R.A. §2 (1) N.Y. Piers. Prop. Law (1934) §52 (1) gives, to a "prior or concurrent written and signed agreement" to sign a trust receipt, the same force as a signed trust receipt would have. However, the agreement to sign a trust receipt should be *taken before the entruster* has induced the third party to make delivery to the trustee. If such agreement were obtained after the entruster had induced the third party delivery to the trustee, the fact that the trustee had received the delivery without having given such an agreement might jeopardize the entruster's security interest.

[3] Before U.T.R.A. was adopted an entruster could not derive a valid security interest from the trustee. As developed at common law the trust receipt's function was that of enabling the acquisition by the trustee of goods, documents or instruments which had not been owned by the trustee prior to the trust receipt transaction; and because the chattel mortgage transaction was available to those who needed to borrow against property already owned, the courts ordinarily refused to recognize so-called trust receipts which arose out of loans made against property owned by the borrower before the loan was made. Nat'l Bank of Depsoit v Rogers 166 N. Y. 380, 59 N.E. 922, (1901) made an exception on the premise that the parties had made an agreement with respect to goods which the trustee did not yet control. U.T.R.A. §2 (1) (b), N.Y. Pers. Prop. Law (1934) §52 (1) (b) now makes it possible for the entruster to derive his security interest in documents or instruments (but not goods) previously owned by the trustee and thereby recognizes by statute the principle of Nat'l Bank of Deposit v Rogers.

[4] Corn Exchange National Bank and Trust Company v. Klauder, 318 U. S. 434, 63 Sup. Ct. 679, 87 L. Ed. 884 (1943).

to the transfer which was involved in the Klauder Case, because the transfer in the Klauder Case was also made to induce a loan and was not made for a loan which was already in existence.

In the Klauder Case, however, the transfer was an assignment of accounts receivable, and under Pennsylvania Law at the time the assignment was made, an assignment was not in itself sufficient to protect the transferee from possible superior rights in other transferees. Under the Pennsylvania Law, in order to be protected as against other transferees, the assignee of an account receivable had to give notice to the debtor whose debt was assigned. The assignee in the Klauder Case failed to give such notice, and the Supreme Court, therefore, ruled that the debtor had not made the transfer *before* the debt existed, and that even though the bank had made a new loan concurrently with the assignment of the accounts receivable to it, the debt which arose from the new loan was an antecedent debt. The reasoning behind the Supreme Court decision apparently ran along these lines: the assignment which the prospective borrower executed in favor of the prospective lender was not of itself sufficient (under Pennsylvania Law) to invest the assignee with an unassailable right to receive payment of the debt which was assigned. Until the assignee notified the debtor whose debt was assigned, the assignor still had the power to make an assignment to someone else who could acquire rights superior to those of the first assignee, by notifying the debtor whose debt was assigned, before the first assignee gave such notice. Therefore, because the assignee (creditor) permitted the assignor (debtor) to have the money he desired to borrow, before notice had been given to the debtor whose account was assigned, *the transfer was not yet completed at the time the debt came into existence* and because the debt existed before the transfer was completed, the debt was antecedent to the transfer, and, therefore, was an antecedent debt within the meaning of Section 60(a).

This is an altogether different situation than that which exists in a

"What a day! And not a solitary soul asked for a raise so I could let off steam!"

GARDNER REA

bipartite trust receipt transaction, because the transfer which is involved in the bipartite transaction is a transfer of *negotiable documents*. A transfer of *negotiable* documents is completed when the prospective borrower endorses and delivers the documents to the prospective creditor. By endorsing and delivering negotiable documents to the prospective creditor, the prospective debtor divests himself of any power to transfer the documents or the goods which the documents represent to anyone else. In such a transaction, the money passes to the borrower after the transfer has been completed and therefore the debt which results is not an antecedent debt. It is also worthy of note that the transferee (the banker) in a bipartite trust receipt transaction is not a mere creditor at the time he makes the loan but is a *purchaser of negotiable documents* who as a holder in due course acquires better rights to the documents than his transferor had. It hardly seems likely that a trustee in bankruptcy could void as a preference the rights which result from a transfer of negotiable documents when they are taken in good faith and for "new value".

Of course, if negotiable documents were endorsed and delivered to a creditor in exchange for an extension or a renewal of a previously existing debt the transfer would be a transfer for or on account of an antecedent debt and the creditor to whom such documents were delivered would probably be deemed to have been in bad faith if he took the documents at a time when the debtor was insolvent and within the four months period prior to bankruptcy.

However, documents which are transferred in exchange for an extension or a renewal of a debt could never be made the subject of a valid trust receipt transaction. Because a trust receipt transaction within the meaning of U. T. R. A. always involves the giving of "new value" either concurrently with the completion of the transfer or at a time subsequent to the completion of the transfer there could never be *a transfer by a debtor to or for the benefit of a creditor for or on account of an antecedent debt* in a trust receipt transaction within the meaning of U. T. R. A.

Arguments for Trust Receipts

For the reasons stated above it seems safe to say that trust receipt transactions when handled properly are not preferences within the meaning of §60(a), because the entruster in the tripartite type of transaction does not obtain a transfer, and in the bipartite type of transaction under U. T. R. A. the transfer which is made is not a transfer by a debtor to or for the benefit of a creditor for or on account of an antecedent debt. The transfer is made before the debt exists. In brief, trust receipt transactions are not transfers within the meaning of 60(a) when they are trust receipt transactions within the meaning of U. T. R. A.

There is, in some States, however, a third type of trust receipt transaction in which the entruster derives his security interest from the trustee, and in which he does not at anytime divest the trustee (debtor) of his power to transfer superior rights to others. The loan is made against goods or documents in the possession of the trustee and the possession of which is retained by the trustee.

This third type of transaction enjoys the designation trust receipt transaction only by reason of an additional section which is not a part of the U. T. R. A., but was added when U. T. R. A. was enacted in Illinois, Indiana and Connecticut. The additional section reads as follows: "The entruster gives new value in reliance upon the transfer by the trustee to such entruster of a security interest in goods or documents in the possession of the trustee and the possession of which is retained by the trustee."

The effect of this additional section is that of making a trust receipt transaction out of facts which would add up to a chattel mortgage in States which did not adopt the additional section. Space does not permit an explanation as to why the section would be objectionable to the credit man, but in brief, because of a different definition of "new value" than U. T. R. A., it may have the effect of making secret liens lawful in the States which have the additional section (usually referred to as the chattel mortgage section, in their trust receipt acts.

Klauder Case Theory

To the writer's mind such transactions would be transfers within the Klauder case theory of "antecedent debt" under 60(a); but they may nevertheless be exempt from the provisions of 60(a), on the premise that they are statutory liens within the meaning of 67(b) of the Bankruptcy Act which seemingly protects statutory liens from §60(a).[5]

Another type of transaction in which money is advanced at a time prior to the perfection of the relative security against bona-fide purchasers from the debtor is the *at-*

[5] See Proceedings of the Second Annual Convention of the Commercial Finance Industry, November 1946, published by National Conference of Commercial Receivable Companies, Inc., 29 Broadway, New York City, for articles by J. Francis Ireton, Proposed Amendment of Section 60 (a) and John Hanna, The Place of the Secured Creditor in Bankruptcy. Also see Journal of the National Association of Referees in Bankruptcy, January, 1947 for article by Robert Stephen Oglebay, Proposed Revision of Section 60 (a) of the Bankruptcy Act: Step Backward.

tempted pledge without delivery of possession.

When the Commissioners on Uniform Laws provided in U. T. R. A., that where money is advanced in reliance upon an agreement to pledge, but the pledgee does not take possession of the pledged property at the time he makes the advance, the pledgee will be protected against creditors of the pledgor for ten days from the time the money was given, they were recognizing the need for a law which would enable the small shopkeeper to borrow money against his inventory without having to go through the onerous and seemingly odorous procedure of chattel mortgage financing.

By limiting the pledgee's protection for ten days without possession of the property pledged they were giving the pledgee the protection he needs in order to induce him to finance the man who needs a loan for the short time necessary to sell goods, or to collect outstanding accounts receivable.

Since attempted pledges without delivery of possession of the property pledged represent transactions in which the debt exists at a time antecedent to the time when the relative security has been perfected as against bona-fide purchasers from the debtor, such transactions too would seem to be transfers within the meaning of "antecedent debt" on the basis of the Klauder case definition of the term. However, since the protection which the pledgee obtains under the U. T. R. A. is statutory, such transactions also might well be exempt from Section 60(a) by reason of Section 67(b).

Space does not permit a detailed discussion of the doubts which the Klauder Case has raised in the minds of counsel and client alike, as to the effectiveness of the chattel mortgage, the trust receipt, and other security devices by which creditors endeavor to acquire and preserve a right to take specific property from a debtor in the event of bankruptcy or insolvency.

Although most of such doubts are not well founded, the fact that they do exist cannot but have an effect upon the ability of small businessmen to obtain the credit they need and could obtain if such doubts did not exist.

Competition by dealers and merchants is one means of keeping prices down. The more people who can obtain goods to sell in competition with others, the less chance there is of prices moving upward. Congress should not delay amendment of Section 60(a) so as to resolve all doubt as to the effectiveness of the security devices by which honest men with limited resources obtain credit from lenders who are satisfied as to the borrowers honesty but only desire to be protected against other creditors in the event that bankruptcy or insolvency occurs.

New York: In December, 1938, Lippel & Feit, wool jobbers, assigned for the benefit of creditors to the New York Credit Men's Association. Owing to administration expense and the fact that the assets were sold at public auction creditors were paid but 28%.

Last month David Lippel, though legally not bound to do so, paid the last of his creditors the last payment, fulfilling his promise to pay all of them 100%.

Field Warehousing

(*Continued from page 17*)

those tanks. The effect of this is, at least, twofold. First, the refinery has the satisfaction of knowing that its product is on hand for distribution where and when needed, against the possibility of transport disruption or production shortages, thus maintaining itself in a good competitive position inventory-wise. Second, the refiner has the protection of a responsible warehouseman watching over the oil for him. Even though he is unable to obtain cash on the barrel-head for the oil delivered to distributors, he has in effect retained possession of the oil because the warehouse receipts issued by the field warehouseman are made out in favor of the refiner. In this form, they are prima facie evidence that the oil belongs to the refiner and not the distributor.

These two illustrations, particularly the latter one, reflect instances which apply not only to businesses of the kinds referred to but to most businesses. The principle of protection related here applies equally to every distributor of any kind of merchandise in the United States. I can't think of a single instance where, assuming of course that there are physical facilities in which to take over and maintain control of goods, a field warehouseman cannot establish custodianship in such a manner and on such a basis as to give the distributor of goods complete protection until the goods are paid for.

Explaining Misunderstandings

In the past there has been some little misunderstanding among credit men as to the workings and the efficacy of **Field Warehousing.** Strangely, some credit executives have felt that the establishment of a field warehouse on the premises of one of their customers for the account of a particular supplier or for loan purposes operated to freeze them out and place them in an unpreferred position. I should suspect that the reason for this feeling on the part of some credit officers, stemmed from the fact that the uses of field warehousing had never been properly and fully explained to them.

Some credit officers have been concerned over the fact that they are not informed whether a field warehouse is in existence on the premises of a given prospective buyer, and would be loath to sell merchandise to that buyer on open account if he is going to turn around and pledge it to someone else. It should not be difficult for any credit officer to determine whether an account to which he is selling has a field warehouse in operation on its premises. Field warehousing is not something done in a corner. Co-operation of field warehouse companies should be sought. The leading field warehousemen have worked with the Institute of Accountants and have encouraged all accountants to indicate in audit reports when field warehousing is used to facilitate the financing of inventories.

A Possible Help for Others

Does it not seem that credit officers could improve their positions if, should they find that a given purchaser has a field warehouse on his premises, they would arrange their sale on the basis of taking back warehouse receipts, consigning the goods sold to the field warehouse for their own account, to be released to the buyer on some basis arranged between them? Or go a step further. Would you not be serving yourselves well, supposing a creditor is weak credit-wise, to do exactly what the banks are doing—insist upon a field warehouse being set up for your own protection, regardless of whether the account may be using it for the protection of others?

There is still another alternative if the credit officers do not care to go that far. Let's assume that you learn that a given account has a field warehouse on its premises. It would seem to be the better part of prudence and good business to require that that particular firm pay cash on the barrel-head for the purchases from you, because the vehicle exists through which that account may obtain cash and pay you cash. This would protect a seller against the diversion of funds and from the conversion of goods, and is something which bankers and other lenders will testify to as being desirable from their own point of view.

It may be felt that this is a tough credit policy. Perhaps the time is here to have tough credit policies. You must sell goods to stay in business, but you are entitled to every bit of protection you can get. Field warehousing, utilized properly can give you that protection.

Don't let Profits Deceive You

(*Continued from page 15*)

dropped from consideration in this discussion.

Because the Bureau of Internal Revenue figures for these classifications were not available in recent years, estimates from 1944 to date are of my own devising, based on a method I have used for some years to keep a running month-to-month record of apparent changes in manufacturing gross receipts, costs, and profits.

Profits Could Easily Vanish

Profits reached a point in March, 1947, about three times as high as a year earlier. There was a moderate decline from March through July and a recovery from that point. Net profit in the accounting sense is at new record levels, but it would not require any very substantial change in volume, prices, or costs to make profit evaporate.

Inquiries made in 1929 and 1938 in connection with the collection of census data indicated that only 9.9 per cent of all manufactured products reached the finished state within a single manufacturing process. The other 90.1 per cent went through two or more processes. Of the initial materials used, 56.8 per cent was already semi-manufactured. Because of this characteristic of manufacturing, an increase in wage rates, or in initial material prices has a cumulative effect upon costs. This factor has been neglected in much that has been said and written.

Of course, we know that prices rose following the latest wave of wage increases, as they inevitably must. The volume of manufacturing output likewise expanded. Contrary to our economic generalizations, our economy was in a position to tolerate increasing prices without restriction of the volume

of sales, because of the wartime inflation of our money supply.

Before the war it was possible to determine the approximate level of manufacturing production in terms of two factors: 1. The funds available for spending on manufactured goods, and 2, The price of manufactured goods.

Determining Disposable Income

The total national spending power in any year has as its chief component the annual realized national income. To this must be added the net change from year to year of demand deposits and of currency in circulation because demand deposits and currency in circulation are usable for the purchase of goods and services. In prewar years the total national spending power indicated by this method closely approximated in amount the "disposable income" series of the Department of Commerce, but this measure diverges rapidly from "disposable income" during the war years because of the artificial creation of demand deposits through the sale of government bonds to the commercial banking system.

To arrive at the portion of these spendable funds that might be available for manufactured products, I have followed a method used by Dr. Willford I. King in connection with his testimony on the full employment bill of 1946. Dr. King first deducted a constant amount of $20,000,000,000 for each year, then divided the remainder by two, on the assumption that about 50 per cent of this amount has been available for manufactured goods. The result has approximately equaled—and correlates very closely with—the value added to manufactured products in the census data.

By correlation of this series of spendable funds for manufacturing and an index of manufactured goods prices with an index of manufacturing production, it has been possible to establish a relationship so that one can arrive at an approximation of the level of manufacturing output to be expected at a given level of spendable funds and a given level of prices. This provides a test of our childhood generalization that a rise in price induces a decline in production.

After the war was over, the burden of war financing was lifted and the supply of spendable funds was no longer artificially expanded. Business volume and especially manufactured goods prices have risen steadily. They have, in my opinion, reached a point when further price advances are likely to have a restrictive effect upon the level of business activity.

Unless something is done to bring a new inflation of the money supply, I believe that those who are concerned with effective inflation as measured by commodity prices are behind the calendar in their thinking. Normal restrictive factors can now come into play.

Three Ways to Kill Profits

We now have the pieces of the jig-saw puzzle and can begin to fit them together:

1. If prices and costs of all manufacturing corporation remain constant and the volume of manufacturing output declines by 14 per cent, the result will be the wiping out of aggregate net profit before federal income taxes.*

2. If volume and costs remain constant and the prices of manufactured goods are decreased by 12 per cent, the result would be the elimination of net profit before federal income taxes.

3. If the volume of manufacturing output and prices of both finished goods and initial materials remain constant, a rise of 18 per cent in average hourly earnings of production workers would induce a rise in costs sufficient to wipe out net profit before federal income taxes.

In summary, therefore, business profits are in vulnerable positions. A moderate rise in costs, a minor decline in volume or a drop in price can make them disappear. Also, it is no longer possible to count on the ability to pass on a higher wage rate or other rise in cost by advancing prices for manufactured products. Such advances will bring a decline in demand.

* If volume decreases, there will be an offsetting contraction in payrolls so that costs will also decline. Allowing for this, it would require a drop of 21 per cent in volume—or a Federal Reserve Index of Manufacturing production around 155 to eliminate all net profit before federal taxes. This would mean a significant drop in employment.

There is an important announcement for NIC students on page 30.

LETTERS TO THE EDITOR

Monthly Statements

We were much interested in the article "Streamlining Credit Work" which appeared in the October 1947 issue. The practice of eliminating monthly statements to customers unless specifically requested is one of long standing in our organization.

It is necessary that we comment briefly about the scope of our operations to illustrate the economics derived from our practice. Our several companies have Accounts Receivable ledgers at 47 locations. There are approximately 65,000 account balances at all times.

Based on the foregoing, one may realize how much time, stationery and postage is saved when we say that we prepare statements for only an average of about 10% of our customers.

We will furnish any customer a statement on request, either on a one time basis or regularly each month. In other words, we do not endeavor to unsell a customer in need of a monthly statement but the power of suggestion does the job in many instances.

We broaden upon the elimination of statements in two additional ways over those mentioned by Mr. Cabot in his article.

About annually, we poll our customers again to see if their requirements accounting-wise have changed to a point where they may be willing to forego statements. It is gratifying to find many of them no longer require such details which offsets or equalizes to a considerable degree, the new accounts requiring statements.

The second angle is that we do not send statements on overdue accounts except in rare cases, where the amount is not comprised of clear and clean cut items. These are usually short and over payments or "on account" payments over a prolonged period of time.

We might add that we were somewhat reluctant to experiment with the idea several years ago in that we had considered the monthly statement to be a form of collection activity where overdue amounts were listed. However, actual experience in our diversified field has proven that collections do not suffer thru lack of monthly statements.

Summarizing, it is our belief that if most companies adopted similar procedures, it would not take long to obtain a satisfactory nationwide trend resulting in substantial economies in credit and collection work. We do not know if we are pioneers in this direction, but it was suggested that we pass along to you, our practice and experience.

Air Reduction Company
Incorporated, New York
V. D. Ward
General Credit Manager

The Credit Manager's Title

I note with interest the discussion as to what to call the credit man.

Just ask any salesman.

C. E. Howard
1032 Walker Avenue
Oakland, Calif.

Government Monetary Policy

Dear Sir:

Dean Madden apparently believes that the Government Credit Policy is sound.* He went to great length in analyzing the Federal Reserve and bank policy in respect to Government and industrial loans, but did not tie his conclusions to the fundamental natural laws which govern production. High production is the key to stabilized commodity prices.

When capital, labor and management have access to the raw materials, in a free market, unhampered by Government controls, monopolies, subsidiaries and exorbitant taxes, maximum production is inevitable. It is just as natural for capital to flow through assured profitable channels as for water to seek its own level.

High taxes, which Dean Madden seems to have overlooked in his 7 point commodity price rise, is the principal factor retarding production with consequent inflated prices.

Funds invested in Government Bonds divert income and savings from productive to non-productive channels and feed the fire of political extravagance. The only way to eliminate Government waste as well as a competitor in the field of utilities, finance and a myriad other functions which should be left to free enterprise, is to withhold by law the flow of money our central Government secures through taxation and the sale of Government securities.

The power to tax is the power to destroy and the 16th Amendment to our Constitution gave our central Government that power. This Amendment opened the door and made possible a socialistic congress as demonstrated in the graduated income tax law, taking from a few citizens up to 92% of their income in order to equalize the wealth of the many.

It retards incentive among the natural leaders of industry and prevents the conversion of vast reservoirs of wealth to capital where it might be better used in the production of more wealth.

Repeal of the 16th Amendment to our Constitution and the political parasites will drop from the Government payroll like Autumn leaves from the trees.

Taxes, which now represent a larger portion of the commodity dollar than any other one item, must be reduced before rising prices can be stabilized at a level proportionate to the national income.

Very truly yours,
C. R. Harriman
7 Francis Lane
Port Chester, N. Y.

* Credit and Financial Management, December 1947, Page 24.

New Booklet Shows Relationship of Texas to Bad Debts

The American Credit Indemnity Company of New York has issued a new tax booklet devoted entirely to the relationship of Federal Income Taxes to bad debts and bad debt reserves. The booklet is made up of a series of questions submitted by business executives and answers prepared by Ludwig B. Prosnitz, CPA, of New York.

West Coast Less Alarmed About Credit Than East

Los Angeles: On November 10th, 1947, the Los Angeles Credit Managers' Association sent a questionnaire to all of its members, asking their opinion on the state of business at the moment and the probable outlook for business in 1948. This questionnaire was identical with the one sent out by the New York Credit Men's Association, the results of which were reported in the October issue of *Credit and Financial Management.*

A comparison of the results of these two surveys is interesting in that there is apparently more optimism on the west coast concerning the prospects for 1948 despite the fact that the west coast credit men reported a greater percentage of business failures during the first eight months of 1947 than did the credit executives of New York, 70% as opposed to 60%.

A comparison of the responses follows:

Question 1. Was the number of customer business failures greater in your trade from January 1, 1947, to September 1, 1947, than for the same period in 1946?

Los Angeles 70%, New York 60%.

Question 2. Do you now expect increased failures or fewer failures?

Los Angeles 85%, New York 93% expect an increase.

Question 3. Do you now expect a business recession, a depression, or an improvement in business?

Los Angeles 77%, New York 80% expect a recession.

Question 4. Are collections slower, better or the same as in December 1946?

Los Angeles 60%, New York 95% report slower collections.

Question 5. Has the trend toward the elimination or reduction of cash discounts in your industry continued, stopped, or have previous discount terms been reinstated?

Los Angeles 78%, New York 82% report continued elimination.

Question 6. In December 1946, many trades reported purchaser resistance and cancellation of orders and future commitments. Is there today continued customer purchasing resistance; cancellation of future orders, larger orders and future commitments; unfilled backlog of orders?

About 20% report backlogs. Los Angeles 80%, New York 60% report commitments smaller. Los Angeles 55%, New York 65% report resistance. Los Angeles 18%, New York 30% report cancellations.

Question 7. The "Survey of Current Business" reports that inventories of all firms (except agriculture) increased $300 million in book values during May 1947 (a total increase from $22.1 to $22.4 billion to that date). Do you consider this increase in inventories to be a favorable or unfavorable trend creditwise?

Los Angeles 70%, New York 80% believe increase unfavorable.

Question 8. Are you finding that customers who willingly issued financial statements during the war period are reluctant to do so now?

Los Angeles 50%, New York more than two to one report customers willing.

Question 9. International trade.

Los Angeles 40%, New York 60% are now exporting. Los Angeles 90%, New York 85% of those not in export business do not anticipate entering it.

Cannon Mills Elect New President and Assistant Treasurer

New York: Announcement has been made of the election of Stanley Phillips to the presidency of Cannon Mills. Mr. Phillips has been associated with Cannon Mills since 1926. He has been in the textile business since 1919.

Also announced was the promotion of Frank E. Byrne to the post of assistant treasurer. Mr. Byrne has been with the firm since 1917. He has been prominent in the affairs of the New York Credit Men's Association, of which he is a past Vice-President, and the New York Chapter, National Institute of Credit.

New Survey Will Show Extent of Bad Debt Losses

The Bureau of the Census, Department of Commerce, is in process of tabulating the results of a survey which it conducted recently to discover the extent of bad debt losses in the Nation's industry. The survey was conducted at the suggestion of wholesalers and trade organizations, among them the National Association of Credit Men, with which the Bureau of the Census has cooperated for many years in compiling statistical data.

The survey seeks to discover how bad debt losses in 1947 compared with those in 1946. The form of questionnaire used (see illustration) was extremely simple and took almost no time to complete. The results will probably be reported in early March.

FORM BUS-987A

BAD DEBT LOSS QUESTIONNAIRE

THIS INQUIRY IS AUTHORIZED BY LAW. Your report is accorded confidential treatment, subject to the provisions of law. Your Census report cannot be used for purposes of taxation, investigation, or regulation.

BUDGET BUREAU NO. 41-4802
APPROVAL EXPIRES FEBRUARY 28, 1948

	1947	1946
Total (*cash and credit*) sales for year	$	$
Credit sales[1]	$	$
Cash sales[1]	$	$
Bad debt losses[2]	$	$
Number of credit accounts Dec. 31		

[1]Report as credit business all sales on weekly, 10-day, 30-day, E.O.M., or other credit basis—all except strictly cash and C.O.D. sales.
[2]Accounts and notes receivable written off as uncollectible.

George Washington; Business Man

By **RALPH TROWBRIDGE**

In an age when it has become the popular pastime of many Americans to speak disparagingly of the great business leaders of the nation, there is food for thought in some facts that have been brought to light about the "Father of Our Country." Records clearly prove that George Washington was the first American millionaire, and one of the great pioneer business adventurers of his day.

Everybody who visited Mount Vernon while Washington lived there found it a hive of activity. The master of that big plantation knew how to make the most of any commercial opportunity. Washington ran a flour mill that had been started by his father; he also conducted fisheries at wholesale along his nearly ten miles of Potomac riverfront, which abounded in shad and herring. From his estate flour and salted fish were shipped in large quantities to England and the West Indies.

If a traveler had wished to cross the river at this point, he would have used the ferry which the owner of Mount Vernon established and operated at a nice profit to himself. In a sense Washington could even be called a real estate developer, since he built a considerable number of homes for workers, forming a small community on his estate. To add needed space to his own home, he enlarged the mansion-house to double its original size.

In 1763, and for the next five years, Washington was engaged upon a vast business enterprise. This was the management of the great Dismal Swamp lumbering undertaking. He had been chosen as the supervising director by twelve men who put their money into it, and he was busy night and day.

Undoubtedly this was as huge an enterprise for that period as TVA for modern times, the only difference being that, instead of being a government undertaking with public funds, it was a strictly private venture for the profit of the investors. More than 40,000 acres of "spongy" forested land below Norfolk, in Nansemond County, Virginia, had to be drained and cut over. It involved the building of several miles of canals and docks at Suffolk, the construction of roads and camps, and the usual labor of timber-cutting and shipping on a large scale.

Acme

Revolution Foils Plan

Not long after this enterprise was carried through, Washington became interested in an even larger venture. This was the organization of the "Mississippi Company," the object of which was to procure a grant of several millions of acres of land in the Ohio and Mississippi valleys from the Crown. Washington was the manager of the whole undertaking and he devoted much time to it over a period of several years. He tried to get his rich Virginia friends interested, and from 1765 to 1772, he did everything possible to win royal favor, in order to persuade George the Third to make the vast land grant. Only the Revolution put an end to the scheme.

That the "Father of Our Country" was a great land speculator is clearly shown by the record. The Mount Vernon estate alone he increased from 2,700 to 8,200 acres. But this was the smallest part of his holdings. Hiring Colonel William Crawford and his brother Valentine, he had them select for him many claims in Pennsylvania, Ohio and the present West Virginia. In time Washington came to hold title to 53,000 acres of the best bottom-lands on the Ohio, Great Kanawha and Little Miami Rivers, as well as the Great Meadows and a large tract in the heart of the now famous Connelsville coke region of Pennsylvania.

Sometimes the great patriot seemed to have an unerring instinct for making the most of a business opportunity. This happened shortly after the American victory at Yorktown. The definitive treaty of peace with England had not yet been signed, when Washington learned that a big farm of 6,000 acres in the Mohawk Valley near Utica, New York, was up for sale. He had no cash available at the time, but General George Clinton was ready to loan him $2,500 for the purchase of the tract, Washington giving him his note at 7 per cent interest. The note was soon repaid. The first crop brought the new owner a snug sum, and out of the sale of lands to small buyers, Washington quickly got back his investment, leaving him the rest of his valuable holdings as a clear profit.

The Credit Executive's Library

by DR. CARL D. SMITH
Director of Education
National Association of Credit Men

Psychology in Credit Letters, by H. M. Sommers. Published by the National Association of Credit Men, One Park Avenue, New York 16, N.Y. $3.00.

This 256 page book is a new kind of aid for credit managers and all other business men and women who have need to remind customers that bills are supposed to be paid. It is a handbook of effective phrasing based on psychological principles. Since all letters written in commerce usually contain requests of one kind or another, the response obtained will depend largely on the psychology used in phrasing the request.

The author, who writes from experience, as a practicing business executive, devotes the first chapter to a discussion of the five motivating forces in human conduct, then proceeds in later chapters to demonstrate how these forces can be brought to bear on customers good and bad.

The format of this book is one of its greatest advantages. Examples are arranged on right hand pages. On the opposite pages are explanations of the psychological principles involved. Complete example letters are added at the end of each chapter. This book contains the psychological ammunition which can be adapted to readers' individual requirements. It is a stimulating volume and provides a wealth of material which can be applied in all cases where credit letters are written.

Financial Handbook, Third Edition, by Jules I. Bogen, Professor of Finance, New York University and Editor, The Journal of Commerce, New York. Published by Ronald Press Co., New York, 1948. $7.50.

As the title implies, this is a financial reference handbook and as such is a valuable tool for financial executives. The contributing and consulting editors form a Who's Who of American business and financial circles.

The volume comprises 1289 pages and 27 sections, each an authoritative treatise of the subject under consideration. Credit and financial executives will find the sections on financial reports and analysis; money, credit and banking; financial planning; working capital, recapitulations and adjustments; reorganizations and bankruptcy; negotiable instruments; commodity trading; and mathematics of finance, most worth while.

Retail Credit Fundamentals, by Clyde W. Phelps, Professor of Economics, University of Southern California. Published by McGraw Hill Book Co., New York, 1947. $5.00.

This is the official text book of the National Retail Credit Association. The three commonly accepted phases of retail credit work make up the text, namely (1) securing, (2) controlling and (3) collecting the account. It has been written from the functional point of view and thus gives the reader a clear picture of the what, why and how of retail credit operations.

Why was the idea of a Credit Research Foundation first broached?

Because members of the National Association of Credit Men desired different and added services which the Association was not able to provide.

Convention Day Comes Gradually Closer and Closer

It doesn't seem possible but three months from now the 1948 convention in Cleveland will be, to most members of the National Association of Credit Men, a mere memory. To the Clevelanders who are responsible for staging the convention this year there will be, of course, odd ends to tie up; to Frederick H. Schrop, convention director, there will be bills to pay and arrangements to get under way for the 1949 convention; to various members of the National staff there will be minutes to stencil, mimeograph and send out; to the editors of this publication there will be stories to write about the gathering. But to all intents and purposes it will be over, and, as we stated above, it doesn't seem possible. Last May is still such a recent memory.

So it is by no means too early to start thinking about what is going to happen and who is going to do what. The arrangements have been going on for some time and light is beginning to emerge from the haze of necessary details.

The man charged with the overall supervision of the convention and its multifarious committees is F. J. Bitterman, Eberhard Manufacturing Company. On him falls the responsibility of coordinating the activities of his colleagues on the executive committee.

Headquarters will be in the Hotel Statler. (See advertisements in practically any magazine.) The housing committee, under the chairmanship of Tom McFadden, American Credit Indemnity Company has arranged for hotel accommodations, and requests for tentative statements of plans have already gone out to all Secretary Managers.

Incidentally, the hotel situation seems to be easing up this year. There were several instances in 1947 of members who wanted to come to New York for the Fiftieth Anniversary Credit Congress but didn't because they were afraid they might have to sleep on a bench in Pennsylvania Station. It was a rootless fear, but readers will remember that the scare stories about travelers having to spend ten dollars to occupy one-third of a pool table were particularly rife last year. We are assured by the credit men of Cleveland that visitors to their city sleep in beds.

The program committee, too, is hard at work. At the moment of writing it is probable that the general program will be more or less the same, as regards times and features as last year's, with special speakers on Monday afternoon and Tuesday and Thursday mornings, group meetings all day Wednesday, and Tuesday afternoon devoted to sightseeing and general relaxation. Henry H. Heimann, Executive Manager of the National Association of Credit Men, will, as usual, deliver the keynote address on the opening morning. The program chairman is H. E. J. Smith, Federal Reserve Bank of Cleveland.

If any of our readers have definitely decided to attend the convention, or are fairly certain of it, they should get in touch with their local Secretary-Managers at once, for although everyone will be accommodated the best rooms go to the first enquirers. Needless to say, the 1948 convention will be an event which should not be missed. At this early date the speakers are not definitely chosen, or those who are definitely decided upon have not yet accepted, but the standard which has been maintained through the years by the National Association of Credit Men will be adhered to.

Plans Already Being Made for the Ohio Valley Conference

Toledo: T. M. Sherman, Toledo Steel Products Co., General Chairman; O. S. Maxwell, Rexair Div., Martin-Parry Corp., Publicity Chairman; C. J. Laures, Hickok Oil Corp., Councillor; Earl E. Smith, Owens-Illinois Glass Co., Chairman of the Toledo Legislative Committee, and Russell H. Melone, Secretary Manager of the Toledo Association, attended an organization meeting for the Ohio Valley Regional Conference on January 24th. The meeting was held in Columbus.

The legislative meeting occupied the morning and continued through lunch. The afternoon was devoted to the drawing up of plans for the conference, which will be held in Toledo on October 15th and 16th.

Dale M. Walker Is Promoted by Paper Goods Co. in Chicago

Chicago: Dale M. Walker, formerly comptroller of the American Paper Goods Co., has been elected assistant treasurer. Mr. Walker has been associated with the company for seventeen years, interrupted by three years in the Army Signal Corps. He is a member of the Chicago Association of Credit Men and the National Association of Cost Accountants.

Industry Group Committee Gives Progress Report

by J. F. FASHIMPAUR
Credit Manager
THE OLIVER CORPORATION
Cleveland
Chairman, Credit Congress
Industry Meetings Committee

Cleveland: The Credit Congress at Cleveland—the 52nd—promises to be one that will be long remembered. Due to present economic conditions, large volumes of sales and mounting credit problems, it is expected that the attendance will attract approximately twenty-five hundred credit men. Almost every industry will be represented.

The entire day, Wednesday, May 19, 1948, will be devoted to Industry Group Meetings. This is one of the most important days of the Congress. Approximately thirty Group meetings will be in session. Attending these meetings will be credit men of similar industry relations. Every effort possible is being made to engage speakers which you would most likely wish to hear speak on a subject of current interest and importance and on which the speaker is an authority. Ample time is provided for after each subject, for questions, answers and discussion. By the end of the day the credit practices and policies of each industry will have been more thoroughly understood by all who are fortunate enough to attend.

No credit man should miss this opportunity to meet and become personally acquainted with other fellow credit men of his field. This alone should more than compensate for the expense incurred in attending. It is suggested that you discuss with your "Boss" the importance and value which you can obtain by attending this convention and do your utmost to come. Don't forget the date, May 17th through May 20, 1948.

Cleveland is honored to have the opportunity of having the annual meeting held in their city and all of the two hundred and sixty-five committee members are putting their wholehearted support into the effort. It is a promise that you will not be disappointed.

School for Food Merchants Being Held in Omaha

Omaha: Beginning February 3 Omaha and Council Bluffs food merchants will go to school for a period of eight weeks to learn how to be better business men.

Their instructors will be men who are well experienced. For instance, J. Sidney Johnson, merchandising manager of the National Biscuit Company, will speak at the first of the night sessions. Mr. Johnson has a wide-open title of "Preparing for Tomorrow."

Other subjects are: "Financial Management," "Reaching Out for More Business," "Building Sales," "Pricing and Merchandising," "Skillful Buying," "Merchandising Meats, Fruits and Vegetables," and "The Merchant as a Manager."

The course of instruction, which will be held at the Hotel Paxton on the evenings of February 3rd, 10th, 16th and March 2nd, 8th, 16th, 23rd, and 29th, is strongly endorsed by the retail grocers and meat men. Wholesalers and banks also will participate.

The course is sponsored by the Independent Grocers and Retail Meat Dealers' Association and the Omaha Association of Credit Men. Donald Eck, of Paxton & Gallagher Company, is chairman. Other committee members are Frank McCall, of Fairmont Foods Company, president, and Gus P. Horn, Secretary of the credit group; Frank P. Fogarty, of Paxton & Gallagher; Henry Greenberg, of the Phillips Department Store, president, and Louis Kavan, secretary of the grocers; Henry D. Keller, of the *World-Herald*, and D. K. Howe, of Fairmont's.

Past President Is Made Honorary Life Member at Duluth

Duluth: H. A. Sedgwick, credit manager of Marshall-Wells Co. for 42 years until his retirement in August, 1946, was elected an honorary life member of the Duluth Superior District Credit Association last month.

Mr. Sedgwick is a Past President of the Duluth-Superior Association and was a member of the board of directors for 30 years, as well as being a past National Director from 1923--25.

CREDIT Article Is Basis of Talk Before Terre Haute Meeting

Terre Haute: Dr. Paul Muse, Head of the Department of Commerce, Indiana State University, was the speaker at the regular noon meeting of the Terre Haute Association of Credit Men on January 30th.

Titling his talk "The Case for the Simplified Letter," Dr. Muse elaborated on an article which appeared in the December issue of *Credit and Financial Management*—"Your Letters Are You," by Charles P. Perrine.

Who will run the Credit Research Foundation?

A board of fifteen trustees elected from the membership of the National Association of Credit Men.

Tri-Cities Credit Association Has New Title and Officers

Davenport, Iowa: A complete reorganization of the present Tri-Cities Association of Credit Men was brought about last month. The name was changed from Tri-Cities Association to the National Association of Credit Men, Quad-City Area.

A local interchange service is being set up and will be operated by Mrs. Allyn Wiese. Also one group meeting per month is being contemplated and others will follow. Regular monthly meetings of the entire Association will be held.

Mr. Harry Betty, the present Executive Manager of the Tri-Cities Association, has expressed a desire to retire and have a young credit man replace him. He will continue as Executive Manager of the Adjustment Department.

The following have been elected to office: Dick Mansing, Midwest-Timmermann Co., President; Fred Schwartz, Republic Electric Co., Vice-President; Allyn Wiese, Auto Parts Co., Secretary-Treasurer.

"World on Your Doorstep" Subject at Kansas City

Kansas City: Dr. Deane W. Malott was the speaker at the January dinner meeting of the Kansas City Association of Credit Men. His subject was "The World on Your Doorstep."

Kansas City: At the Tri-State convention held in St. Louis on October 10th and 11th, arrangements were made to hold the next Tri-State convention in Kansas City. Arrangements have now been made to hold the convention on October 8th and 9th of this year with headquarters at the President Hotel.

We believe it would be a service to our readers if we kept a file of future regional conference dates. Associations which have set dates for regional meetings are invited to communicate with the editor, however far off the meeting may be.

Qualifying Tests For N.T.C. Awards Scheduled on Feb. 28

The qualifying examination for the Associate Award, the first of the national examinations to be held under the requirements of the revised program of study of the National Institute of Credit, will be held on Saturday, February 28th. This is the only examination to be held on that date. On Saturday, June 5th, both the Associate and the Fellow Award examinations will be conducted.

These examinations have been introduced by the National Committee on Education for the purpose of establishing uniform standards by which candidates for the awards may qualify for the professional designations of Associate and Fellow of the National Institute of Credit. The immediate objective of these examinations is to ascertain the candidate's ability to solve practical credit situations, and the ultimate purpose is to improve and raise the professional status of those engaged in credit work as a career.

Each examination will consist of three parts, each part related to subjects covered in the program of study. In the Associate Award examination, Part I will cover the subject of economics, Part II, introductory accounting, and Part III, credits and collections. The comprehensive problem examination for the Fellow Award will cover in Part I the subject of legal aspects of credit, Part II, that of credit management problems including financial statement analysis, and Part III will cover the field of human relations in credit work, including the subjects of salesmanship, psychology, supervision of personnel and customer relations.

Twenty-four examination centers are being announced in which the examinations are to be held on Saturday, February 28th, from 9 A. M. to 12 Noon. Because of the national character of the examinations and the desire and necessity of treating all candidates alike, no special examination can be held. The examination centers have been selected with the view to making the examinations accessible to the largest number of candidates with the minimum amount of travel for each person.

Those who are pursuing courses of study in preparation for these examinations should see to it that they have registered in the National Institute of Credit. This registration should be made on the official form obtainable from the office of the nearest chapter or the local affiliated association of the National Association of Credit Men.

A special bulletin has just been issued entitled "Information Bulletin Number 4 —Qualifying and Comprehensive Examinations for Associate and Fellow Awards." This may be obtained from the chapter office or from the secretary-manager of the local association. If not available write to the Director of Education, One Park Ave., New York 16, N. Y., for a copy.

Decline in Slow Paying Accounts Shown in Survey

Chicago: Well over 250,000 active individual accounts covering practically every line of manufacturing and distribution in the United States are included in the second survey conducted by the Chicago Association of Credit Men. This survey will be conducted quarterly.

A comparison with the previous survey shows that past due accounts have diminished, as also have the number of accounts discounting. President R. L. Seaman, commenting on the survey, said: "The current figures show a variation in the respective paying categories which reflect the seasonal trend. . . . The fact that this survey reflects these variations is a favorable commentary on its accuracy and the fact that it can be accepted as a barometer of credit conditions as related to collections."

The figures shown in this survey, compared with those of the last survey, appear below.

Accounts	Discounting	Pay When Due	Past Due
Retail			
Sep. 30	52.9%	36 %	11.1%
Dec. 31	41.1%	48.3%	10.5%
Wholesale			
Sep. 30	56.5%	32.4%	11.1%
Dec. 31	65.1%	30.4%	4.5%
Industrial			
Sept. 30	48.5%	42.1%	9.4%
Dec. 31	42.9%	48.6%	8.4%

Los Angeles Members See Demonstration of Interchange Machine

Los Angeles: The Los Angeles Credit Managers' Association held a Credit Interchange forum on January 8th, at which members were shown how complete cooperation produces a better report. The members were given an inside picture of how the reports are produced by the Remington-Rand tabulating machine.

Detroit Holds Annual Ladies' Night Party

Detroit: The annual Ladies' Night party of the Detroit Association of Credit Men was held at the Detroit Yacht Club on February 6th.

Has the Credit Research Foundation the approval and backing of the National Board?

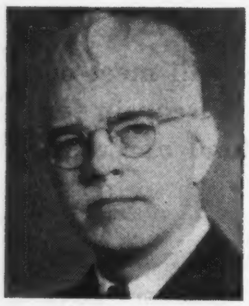
Yes. All its organizational plans have been approved by the Board.

E. B. Gausby

L. G. Hummel

E. T. Vogt

Miss S. Jane White



H. E. J. Smith

Clevelanders Gird

On May 16th, when you check in at your hotel in Cleveland, you will be looking forward to four days of business and pleasure. All arrangements will have been made for your convenience, your program will tell you what is going on, and when and where, and about the only thing you will have to worry about is feeding yourself.

A. E. Fletcher

Such smooth, painless enjoyment could not be possible were it not for the time and effort put in by the ladies and gentlemen of the various committees for months in advance. Space does not permit us to show here the portraits of all the members of all the committees, much though we would like to do so. However, we can, and do, with pleasure show here the various committee chairmen. They have been hard at work for some time and already their plans have taken concrete shape.

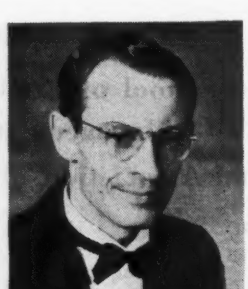
E. H. Davies

Approximately thirty group sessions will be held this year. These sessions are described more fully elsewhere in this issue.

T. C. Pollack

Here are the chairmen and their committees:
F. J. Bitterman, General Chairman.
Cleve Pomeroy, Host City Registration.
J. W. Lerner, Finance and Budget.
R. C. Peters, Auditorium,
W. T. McWade, Bankers.

John Detjens, Jr.



D. H. Hotchkiss

Tom McFadden

H. R. McDonald

Mrs. E. H. Davies

Cleve H. Pomeroy

K. S. Thomson

Frederick H. Schrop

For May Invasion

Miss S. Jane White, Credit Women.
John Detjens, Jr., Entertainment.
Mrs. E. H. Davies, Hostess.
Tom McFadden, Housing.
J. F. Fashimpaur, Industry Group Meetings.
D. H. Hotchkiss, Information.
H. E. J. Smith, Program and Speakers.
A. E. Fletcher, Publicity.
W. N. Lawson, Registrar.
H. R. McDonald, Registration Reception.
W. W. Thomas, Reception.
T. C. Pollack, Sergeant at Arms.
F. J. Griesinger, Transportation.

F. J. Bitterman

Though not specifically heading any particular committees, there are certain people who are very closely identified with the whole running of the convention. Frederick H. Schrop, of course, in his capacity as National Convention Director, is the "liaison man" between the Cleveland Association, the National Association and the hotels involved. Others concerned with the arrangements are:
E. B. Gausby, National Director.
E. H. Davies, President of the Cleveland Assn.
L. G. Hummel, President of the Akron Assn.
E. T. Vogt, President of the Canton Assn.
K. S. Thomson, Executive Secretary, Cleveland Assn.

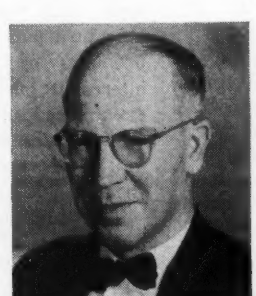
J. F. Fashimpaur

J. W. Lerner

Frank Griesinger

R. C. Peters

Walter Lawson



W. T. McWade

W. W. Thomas

What will be the activities of the Credit Research Foundation?

That is a matter for the Board of Trustees, but many vital research projects have been outlined which could start when the Foundation is organized.

Bankruptcy Is Discussed At Chicago Forum

Chicago: The Chicago Association of Credit Men held a bankruptcy forum in the Hotel La Salle on January 28th. Four experts composed the panel.

Wallace Streeter, Referee in bankruptcy for the Northern District of Illinois spoke for referees. R. L. Seaman, Vice-President of the Star Merchandise Co., Inc., and President of the Chicago Association spoke for business and the credit profession. Other speakers were Carroll H. Teller, Senior Partner of Teller, Levit & Silvertrust, Past President of the Commercial Law League of America and Chairman of the Bankruptcy Committee of the Illinois Bar Association, and Joseph Solon, Assistant U. S. District Attorney, Northern District of Illinois in charge of the tax division, who spoke on the tax and fraud implications of the bankruptcy picture.

Harold T. Halfpenny, General Counsel to the Chicago Association, was the moderator.

OBITUARY

John B. Denton

Binghamton: John B. Denton died at his home on January 11th. Mr. Denton was president of the Triple Cities Association of Credit Men during the year 1945-46 and was Credit Manager of ANSCO Corporation. Mr. Denton was the second officer to be lost to the Triple Cities Association in two weeks.

Alabama Association Gets New Name, New Officers at Meeting

Birmingham: At the Annual Meeting of the Alabama Association of Credit Men, the name of the organization was changed to the Alabama Association of Credit Executives.

W. S. Wilson, Treasurer, Sloss Sheffield Steel & Iron Co., was elected President of the Association. C. L. Bromberg, President, National Woodworks, Inc., was elected Vice-President, and Mason Seay, Secretary of the Perry Supply Co., is the new Treasurer.

Second Session of Executives' School Set for August 22

The second session of the Executives' School of Credit and Financial Management is scheduled for the two weeks period from August 22 to September 4, 1948. This school will again be held at the University of Wisconsin and is sponsored by the National Association of Credit Men and the National Institute of Credit. Last year a group of seventy-eight credit and financial executives representing sixty-four corporations and coming from twenty-six states comprised the initial entering class. The success achieved and the enthusiasm shown by those in attendance insure a dominant and permanent place for the school in the educational program of this association.

Accommodations at the university have been enlarged so that a total of 160 can be registered this year. Of the seventy-eight executives who were in attendance last year, it is evident that approximately sixty will return for their second year next August. This will make it possible to admit one hundred to the first year group for the 1948 session. Applications are coming in rapidly even though the announcements have just been released.

Eight courses are to be given at the coming session. All are required and no options are provided. Those entering the school for the first time will take the four courses as follows:

Problems of Credit Management I
Financial Management I
Current Trends in Marketing
Elements of Business Administration

The sixty or more who return for the second year will continue the studies they began last year by taking the following four courses:

Problems of Credit Management II
Financial Management II
Economics of Money and Credit
Development of Executive Abilities I

In addition all members of the school will participate in a series of round-table conferences held four evenings each week. Contemporary problems of vital interest to business executives form the basis of discussion in these conferences.

The administrative officers of the school are Dr. Edwin B. Fred, president of the University of Wisconsin; Dr. Fayette H. Elwell, dean of the School of Commerce, University of Wisconsin; Dr. Carl D. Smith, director of education of the National Association of Credit Men, who serves as executive director of the school; and Leslie Jones, associate editor of *Credit and Financial Management,* who serves as registrar.

The school has just issued an attractive 24-page catalogue which will be sent upon request to interested persons.

Is the Credit Research Foundation necessary to finance current activities of the National Association of Credit Men?

No, but much needed research cannot be supplied without it.

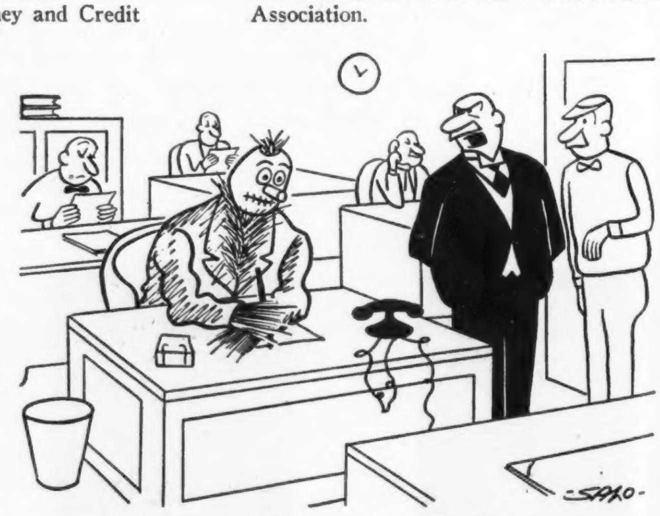
New York Banker Is Speaker at January Bridgeport Meeting

Bridgeport: Dwight W. Michener, Associate Director of Research for the Chase National Bank of New York., addressed the regular monthly meeting of the Bridgeport Association of Credit Men on January 14th. His subject was "Business Trends."

Mr. Michener is a member of the Research Council of the American Bankers Association, and a lecturer in Banking in the School of General Studies, Columbia University.

New York Credit Man Promoted by Shirt Firm

New York: Joseph Young, Brewster Shirt Co., has been promoted from Credit Manager to Assistant Treasurer. He was formerly with the Treasury Department and with Prashker Sohn & Co. He is a member of the New York Credit Men's Association.

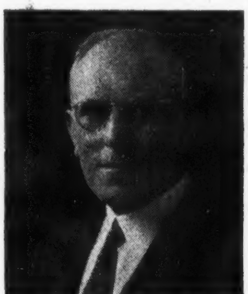


"I hope Higgins realizes that he isn't fooling anyone with that thing!"

SALO

Textile Credit Men to Continue Fight On Frauds

A determined effort to continue to fight the activities of the commercial cheat was the principal subject at the annual meeting of the Textile Fraud Prevention Committee, held at the Manhattan Club, New York City, on January 27, 1948, under the Chairmanship of William G. Betsch, retired Vice-President of William Iselin & Company, Inc.



William G. Betsch

The gathering was addressed by Henry H. Heimann, Executive Manager of the NACM, H. Parker Reader, President of the New York Credit Men's Association, and Attorney Maxwell S. Mattuck, the legal representative of the Fraud Prevention Department.

Frederick H. Schrop, who is in charge of promotional work, reported that many concerns located throughout the country are showing more interest in the activities of the work of the Department than at any time during the past five years.

Charles J. Scully, Director of the Department, presented a report covering its activities for 1947.

The Fraud Prevention Committee re-elected William Fraser of J. P. Stevens & Co., Inc., George Beisheim of Sidney Blumenthal & Co., Inc., Lester Prink of John P. Maguire & Co., Inc., and William G. Betsch, as members of the Executive Committee for the current year.

William G. Betsch enlisted the aid of Francis R. Landau, Vice-President of Crompton-Richmond Co., Inc., as chairman, A. James Mill, Vice-President of Mill Factors Corporation, and A. J. Smith of J. P. Stevens & Co., Inc., to constitute a committee of three to bring about more interest in the activities of the department through inducing every textile house in New York City to support the work of the department in ridding the market of fraudulent operators.

The chairman submitted a budget for the current year which was adopted unanimously.

The members of the Textile Fraud Prevention Committee are:

Chairman: William G. Betsch, William Iselin & Co., Inc.; Vice Chairman: Lester Prink, J. P. Maguire & Co., Inc.; George Beisheim, Sidney Blumenthal & Co., Inc.; Konrad F. Braun, Commercial Factors Corp.; A. H. Bullwinkel, L. Bachmann & Co., Inc.; Nash S. Eldridge, Ames Textile Corporation; Maurice E. Fischer, Cohn-Hall-Marx Co.; William Fraser, J. P. Stevens & Co., Inc.; J. Harold Hughes, American Woolen Co., Inc.; Francis R. Landau, Crompton-Richmond Co., Inc.; Emanuel P. Lewis, James Talcott, Inc.; Charles F. McNally, Meinhard, Greeff & Co., Inc.; Syl May, Daily News Record; A. James Mill, Mill Factors Corporation; George W. Retz, A. D. Julliard & Co., Inc.; Charles B. Riley, L. F. Dommerich & Co.; A. James Smith, J. P. Stevens & Co., Inc.; R. G. Woodbury, Textile Banking Co.

Paint Credit Men Elect New Officers At New York Meeting

New York: Fred Fromhols, Treasurer and Credit Manager of the Egan-Hausman Co., Inc., was elected President of the Paint and Allied Industries Credit Association at the annual meeting held on January 20th. Mr. Fromhols has served the Association actively over a long period of years as committee member and Director.

The following officers were also elected: 1st Vice-President—T. H. Klein, Hilo Varnish Corp.; 2nd Vice-President—S. Kaplan, Adelphi Paint & Color Works, Inc., and Treasurer—W. Rohs, Colonial Works, Inc.

MEMBERSHIP PROGRESS REPORT

MAY 1, 1947 to JANUARY 31, 1948 COMPARISON

	Net Gain	Total Jan. 31	Percent
CLASS A			
Cleveland	66	657	111.16
St. Louis	62	715	109.49
Rochester	34	535	106.78
CLASS B			
San Diego	45	340	115.25
Newark	33	383	109.42
Baltimore	37	512	107.78
CLASS C			
Toledo	33	210	118.64
Des Moines	31	221	116.31
Lexington	25	208	113.66
CLASS D			
Washington	16	126	114.54
Syracuse	21	168	114.28
Salt Lake City	24	197	113.29
CLASS E			
Albuquerque	26	86	143.33
Akron	23	78	141.81
Youngstown	26	107	132.09
CLASS F			
Springfield, Mo.	7	34	125.92
Austin	6	30	125.00
Bristol	6	30	125.00
Joplin	5	25	125.00

What are the main objectives of the Credit Research Foundation?

To foster a clear understanding of credits and the essentially of sound credit practices for a sound economy.

E. B. Moran Ends Six-Weeks Tour Of The Western States

Chicago: E. B. Moran, Manager, Central Division, National Association of Credit Men and Director of Sales and Promotion, recently concluded a six-weeks speaking and membership promotion tour of the Western States.

During his tour Mr. Moran addressed eleven Associations as well as many Chambers of Commerce and other civic groups. His itinerary included Fargo, N. D.; Billings, Mont.; Great Falls, Mont.; Spokane, Tacoma, Seattle and Bellingham, Wash.; Lewiston and Boise, Idaho; Portland, Ore., and Denver, Colo.

Introducing President Au Hau Som Om Keah

Oklahoma City: Charles B. Rairdon of Owens-Illinois Glass Co., was a guest of the Oklahoma City Chamber of Commerce during the meeting of the National Board in Oklahoma City last October, and was honored by the Kiowa Indians by adoption as an honorary member into the tribe. When crowned with the headdress he was given the name of "Au Hau Som Om Keah," which means "Maker of Glass to See Through."

New Officers Elected By New Orleans Group

New Orleans: At the annual stockholders' meeting held on January 13th, the following were reappointed to office in the New Orleans Credit Men's Association: T. J. Adams, Times-Picayune Publishing Co., President; J. J. Culver, The Blue Plate Foods, Inc., Vice-President, and Fred J. Lozes, Secretary-Treasurer and Manager.

Law Course Instituted By Omaha Credit Association

Omaha: The Omaha Association of Credit Men has organized a Commercial Credit Law Course which began on Tuesday evening, February 3rd. Attorney Shrier, an experienced instructor, will be in charge of the class. He has taught similar classes for the American Bankers Institute.

Worcester Holds Panel Discussion on Credit

Worcester: A panel discussion on credit problems was held during the January meeting of the Worcester County Association of Credit Men. Participating in the discussion were W. F. Matson, Hobbs Manufacturing Co.; William C. Green, M. J. Whittall Associates, and Edwin R. Foley, Wyman-Gordon Co.

Still Not Much Reduction in Federal Payroll

Although civilian employment in the executive agencies of the federal government dropped during November to below 2 million for the first time since 1941, more than half of the agencies reporting to the Joint Committee on Reduction of Nonessential Federal Expenditures showed employment increases inside continental United States, according to a statement by Senator Harry F. Byrd (D.-Va.).

Fifty-six reporting agencies certified a total civilian employment in November of 1,999,853, a net reduction of 14,145 under the total for the preceding month of October, but increases in non-military employment inside the country were reported by 29 agencies.

The major portion of the net reduction was accounted for by a decrease of 12,643 in civilian industrial personnel employed by the Army overseas. This reduction was said to have been occasioned largely by the discontinuance of the Mediterranean Theater of Operations, but it was partially offset by an increase of 2,264 civilian employees taken on by the Army inside the United States.

Continuing the unbroken trend of both the Army and the Air Forces since the Military Unification Law became effective last summer, the civilian employment of the Air Forces also increased in November—by 924.

Other agencies reporting major increases inside the country included the Interior, Justice and Post Office Departments, Atomic Energy Commission, Civil Service Commission, and the Maritime Commission. Others reported smaller increases. •

Those reporting substantial decreases included Agriculture, Treasury and Navy Departments, Office of Housing Expediter, War Assets Administration, General Accounting Office, Housing and Home Finance Agency, Panama Canal, Reconstruction Finance Corporation, and Tennessee Valley Authority.

Uncle Sam's Payroll

Consolidated table of Federal personnel inside and outside continental United States employed by the executive agencies during November 1947, and comparison with October

Department or Agency	October	November	Increase	Decrease
Executive Departments (except National Military Establishment)				
Agriculture	74,885	72,499	....	2,386
Commerce	36,799	36,774	....	25
Interior	47,151	47,190	39	....
Justice	25,094	25,250	156	....
Labor	4,481	4,487	6	....
Post Office	461,959	463,582	1,623	....
State	20,765	20,767	2	....
Treasury	86,126	85,300	....	826
Emergency War Agencies				
Office of Defense Transportation	40	41	1	....
Office of Scientific Research and Development	58	48	....	10
Office of Selective Service Records	661	659	....	2
Postwar Agencies				
Council of Economic Advisers	59	59	....	....
National Security Council[1]	....	4	4	....
National Security Resources Board	44	51	7	....
Office of Government Reports	20	19	....	1
Office of the Housing Expediter	5,347	4,802	....	545
Philippine Alien Property Administration	164	170	6	....
U. S. Atomic Energy Commission	4,378	4,663	285	....
War Assets Administration	33,729	32,456	....	1,273
Independent Agencies				
American Battle Monuments Commission	99	99	....	....
Bureau of the Budget	606	599	....	7
Civil Aeronautics Board	570	573	3	....
Civil Service Commission	3,613	3,668	55	....
Export-Import Bank of Washington	113	116	3	....
Federal Communications Commission	1,301	1,303	2	....
Federal Deposit Insurance Corporation	1,164	1,173	9	....
Federal Mediation and Conciliation Service	360	360	....	....
Federal Power Commission	774	780	6	....
Federal Security Agency	32,368	32,391	23	....
Federal Trade Commission	558	559	1	....
Federal Works Agency[2]	23,118	23,043	....	75
General Accounting Office	9,969	9,520	....	449
Government Printing Office	7,539	7,578	39	....
Housing and Home Finance Agency	12,514	12,336	....	178
Interstate Commerce Commission	2,264	2,265	1	....
Maritime Commission	6,838	6,913	75	....
National Advisory Committee for Aeronautics	6,023	6,048	25	....
National Archives	328	326	....	2
National Capital Housing Authority	278	287	9	....
National Capital Park and Planning Comm.	19	21	2	....
National Gallery of Art	317	318	1	....
National Labor Relations Board	849	788	....	61
National Mediation Board	103	102	....	1
Panama Canal	24,252	24,126	....	126
Railroad Retirement Board	2,841	2,811	....	30
Reconstruction Finance Corporation	6,820	6,619	....	201
Securities and Exchange Commission	1,179	1,180	1	....
Smithsonian Institution	522	522	....	....
Tariff Commission	225	224	....	1
Tax Court of the United States	125	124	....	1
Tennessee Valley Authority	14,649	14,514	....	135
Veterans' Administration	208,647	208,669	22	....
Total, excluding National Military Estab.	1,172,705	1,168,677	2,406	6,335
Net decrease, excluding National Military Establishment	....	....	3,929	
National Military Establishment				
Office of Secretary of Defense	433	455	22	....
Department of the Army				
Inside continental United States	252,878	255,142	2,264	....
Outside continental United States	137,528	125,042	....	12,486
Department of the Navy	340,159	339,219	....	940
Department of the Air Forces	110,305	111,229	924	....
Total, including National Military Estab.	2,014,008	1,999,853	5,616	19,761
Net decrease, including National Military Establishment	....	....	14,145	

[1] Exclusive of the personnel of the Central Intelligence Agency.

[2] Adjusted from the previously reported figure of 22,517.

Influence of Price on Our Economy

Supply and Demand Must Be Watched

by **J. E. BULLARD**
Special Writer

The general public more or less vaguely realizes that supply and demand set prices. This explains the reaction to prices by the people. They know that a falling off in demand when prices are high means a lowering of prices. With the demand down to or less than the supply prices have to be lower to dispose of the supply.

A big supply gives them more confidence in the quality of goods offered at bargain prices than, otherwise, would be the case. Display men learned this long ago. They discovered that a mass display of goods offered at cut prices resulted in larger sales than any other display did. If peanuts were offered at reduced prices, for example, one or more show windows would appear to be filled with them up to about eye level. By filling in most of the space with woodwork which was concealed by the peanuts not a very large quantity was needed to give the appearance of an enormous stock. That apparently great quantity served to convince the window shoppers quality did not have to be sacrificed to offer the bargain. The greater the supply, the lower the price, they realized.

Where consumers coming into the office to pay their bills will be bound to see them, an electric power company has mounted on the walls photographs some six feet high of its hydro-electric power plants. It has been found that these help to convince people there is an adequate supply of generating power facilities for all needs, that the service is dependable and the rates low. This is just one form of mass display.

A shoe manufacturer features his large production and his efficiency in manufacturing and distributing to convince the public he is offering greater value for the money than anybody else is. Since he has been doing this for years it would seem he is finding it profitable to dwell upon low prices made possible by great supply which is ever growing larger.

Supply Can Induce Demand

Any industry, any manufacturer, any retailer able to increase the supply of what is produced or bought for sale and at the same time lower costs so retail prices can be reduced finds the demand increases to a marked degree. Two industries which illustrate what can be accomplished are the electric power and the automobile industries.

The electric power industry has found ways and means from its beginning to reduce costs as it increased the supply of electric current for sale. Between 1913 and 1940 domestic rates for electric current went down for the nation as a whole a little more than 56 percent but the average home using electricity paid in 1940 a little more than 59 percent more for current than did the average home in 1913. Allowing for the reduction in rates, this means the average home was consuming more than three and a half times the electricity the average home did in 1913. Sir James Ambrose Fleming points out in the Encyclopaedia Britannica that five times more electricity was generated in the United States in 1928 than in 1913. America's Needs and Resources, a Twentieth Century Fund publication, states that for the nation as a whole, domestic customers of the electric power industry increased from eight million in 1920 to twenty million in 1930 and though from 1930 to 1940 there was only a 25 percent increase in domestic consumers, the electricity consumed by them almost doubled. On the other hand, it is stated, the number of domestic consumers of gas and the amount they consumed tended to become stabilized during the 1930's. Gas companies were not able to reduce costs while increasing supply to the same degree the electric power industry was. Hence the leveling off in demand.

Low Prices Sell Cars

The automobile industry started as pretty much of a luxury industry. It did not appear that it ever could grow to large size because cars would have to be sold at such high prices only the rich could afford to buy and drive them. Henry Ford's idea of producing a low priced car which would be within the reach of the average person seemed visionary, to say the least. Predictions were rife he would not last long in the industry. A man who was about to open the first automobile sales room in a little city of 10,000 population took his time selecting the car he would sell. He realized he could sell more low priced than high priced cars but he wanted to represent a manufacturer who, he was certain, would remain in business. After a thorough investigation of all the manufacturers he finally decided not to sell Fords but did take a dealership for a higher priced car, the manufacturer of which was out of business in less than fifteen years. Years later, when talking to a business article writer, he laughed and remarked how much more money he would have made had he selected the car for which there would be the greatest demand.

The luxury idea seems to have remained in the

automobile industry till 1918. At least, family cars were advertised as pleasure cars up to the time when the government began levying what the industry considered war time luxury taxes on automobiles. Since then there have been passenger cars but no pleasure cars.

In 1895 there were only four registered automobiles in the United States. By 1919 and 1920, when registration had reached about eight million, articles were appearing in newspapers and other publications which pointed out that the automobile industry had reached the saturation level. Production could hardly be increased because the demand had been met and any increase in the number of cars manufactured per year in excess of those required as replacements and to meet population growth would prove to be surplus and have to be sold at prices which might prove ruinous to the manufacturers. Plenty of data was presented to support this point of view, but some of the writers of these articles, it would seem in the light of later days, should have known better.

Pessimists Confounded

Anyhow, car manufacturers continued to increase facilities, decrease the cost of production and offer the public better and better automobiles at lower and lower prices. Soon no one manufacturer enjoyed a virtual monopoly in the lowest priced fields as had been pretty much the case since the early 1900's.

Charles F. Kettering gives the number of cars registered in 1940 as 27,300,000 or more than three times the number registered during the days of those pessimistic articles. The World Almanac gives the number of families in the United States in 1940 as 34,948,666. This means that in 1940 there were 78 cars registered for every 100 families. The total population of the continental United States in 1940, according to the census taken that year, was 131,669,275 or 4.8 persons for every registered passenger automobile. This means that every man, woman and child in this nation could have been given a ride at the same time if all the registered cars were placed into use and no one car would need to have been crowded.

One wonders how many men who, otherwise, would have gone into some phase of the automobile industry stayed out because of those pessimistic predictions back 27 years ago. Have they prospered to the degree they would had they followed their inclinations or do they look back at the profits they might have made as that first automobile dealer in the 10,000 population city did? The error made by those 1918, 1919 and 1920 prophets appears to have been due to giving too much attention to the demand current at that time and too little to the possibilities of increasing the supply in such a manner as to lower costs and thus increase demand through reduced prices to the public.

Same Effect Possible Today

The nation, today, is in a position comparable to that of the postwar period after 1918. All sorts of predictions can be made regarding future demand and most, if not all of them, may be wrong. Trends have to be studied with the greatest care to determine in what direction and to how great a degree demand is changing. With butter at around a dollar a pound retail and margarine at around 35 cents a pound it can easily be predicted that future demand for butter will be less than it has been in the past and that for margarine much greater. No accurate prediction can be made, however, until future supplies of butter and margarine are determined with accuracy and also what the real reason is for the butter demand being so great that it can be sold at so high a price. Can the supply of margarine be increased enough to supply a steadily increased demand? Can this be done while maintaining or improving the quality and can production costs be lowered so as to enjoy a price advantage when butter prices become normal once more?

Trends may be misleading unless due regard is given to new developments in different industries. If one reviews the past of the gas and of the electric power industry, he easily can reach the conclusion that the manufactured gas industry has been given a death blow by the electrical industry. From now on he could conclude businesses dependent upon the gas industry cannot be expected to be as good credit risks as comparable businesses dependent upon the electric industry. If he investigates further, however, he discovers the gas industry has continued to be in much the position the electric power industry would have been in had it continued to generate direct current which cannot be transmitted over great distances rather than alternating current which can be. Though manufactured gas plants have been improved over the years gas is still baked out of the coal and the coke may be used for producing water gas which is enriched with oil. The final gas, however, still is low grade as far as heat value is concerned. It cannot be pumped through long pipe lines as economically as natural gas having about twice the heat value of coal gas and the cost of production is higher.

Oxygen Too High Priced

One reason why practical and economical methods of completely distilling coal have not been developed has been that no method had been found to produce low price oxygen needed for the purpose. At a recent meeting of the Technical Section, Joint Production and Chemical Committee Conference of the American Gas Association held in New York City, Dr. Henry Rushton, head, department of chemical engineering, Illinois Institute of Technology, Chicago, Ill., and Dr. Charles R. Downs, consulting chemical engineer, New York City, described processes now available for producing oxygen at a small fraction of its former cost. They pointed out that the complete gasification of coal, with the maximum retention of heat in the gas has long been a goal of the gas industry. For the past 12 years processes have been in operation in Germany for the manufacture of city gas by continuous processes using oxygen. Being technical men rather than publicity men, these gentlemen made no predictions regarding what lower priced oxygen would mean to the gas industry beyond stating that an important question now facing the gas industry is whether the oxygen costs will be low enough for gas making. It is apparent, however, that new processes of gas making may be developed which will make great changes in the present

relative positions of the gas and of the electrical industries. This could be of vital interest to those extending credit to firms dependent upon these two industries for business.

Shortages Can Mislead

Acute shortages have a way of leading business men to wrong conclusions. Since the end of the war automobile production has been hampered by stoppages due to labor trouble, by material and parts shortages and by difficulties in bringing production per manhour back to the prewar level. Costs have gone up and prices have had to be advanced. The Automobile Manufacturers' Association *Facts and Figures* states that though the average life of automotive vehicles in use in 1941 was only five and a half years, the average life in 1946 was nine years or an increase in life or usage of 64 percent.

It has been predicted it will require years for the industry to catch up with the demand for new cars. The problem will be making deliveries on enough cars rather than selling any. When a car dealer does receive a delivery of cars, it does not surprise him if somebody comes in with a big roll of bills, counts out enough to pay for a new car and adds more money which he offers for immediate delivery of the car to him. Complaints are rife that some people succeed in buying new cars which they sell at inflated prices shortly after they get delivery. Dealers are accused of adding every accessory they can get to new cars and then assuming a take-it-or-leave-it attitude if new car buyers object to paying the selling price of those accessories.

Demand Unpredictable

When such a condition as this exists it is well to remember that supply and demand can be balanced when shortages exist by increasing the supply, reducing the demand or by both. During rising prices demand is unpredictable. This is well illustrated by two surveys made in the postwar period after 1918. Tire fabric and cord were in short supply and the future did not look too bright for a supply great enough to meet the demand. The first survey did not point to any easing of the situation. Only a few months later, however, mills were only too glad to secure orders for tire fabrics and cord. Not only would they take all orders they could get but do so at lower prices than they had considered necessary just a short while before. The demand for long staple cotton fabrics which had been so great and had been considered so permanent vanished into thin air almost over night. Mills, converters, wholesalers and retailers, unless they had been extremely cautious, found their inventories too high. It became more and more difficult to pay bills due. In some instances reorganizations were necessary to remain in business. In others bankruptcy was the only way out.

There is no certainty that, in spite of the enormous demand for new cars now, the same thing will not happen to new car demand. There, also, is no certainty it will. The only certain thing is that it would appear to be the better part of wisdom to continue to be cautious. No dealer, distributor or manufacturer can over-extend with safety. Credit managers, to protect their companies, will do well to watch the financial condition of those to whom credit is extended. Is business being done in such a manner and are there sufficient liquid assets so the customer can weather a sudden and unexpected drop in demand which may mean any cars on hand or on order will have to be sold at less than actual cost?

Research and Competition

A relatively new form of competition promises to play a greater part in the future in determining demand than it ever has before. This is research. For generations the keenest competition has developed between industries, rather than between firms in a given industry. There is little doubt that this has played an important part in the growth of trade associations. Research tends to increase that competition between industries.

Prior to the first world war comparatively little industrial research was being done in this country. Germany pioneered industrial research and continued to lead the world until war experiences taught other nations how important it is. Figures have been published which give the total amount spent for industrial research in 1920 as only $25 million and for 1939 as $200 million or eight times the amount spent nineteen years before. World war two has been called a war of research. The degree to which research increased is indicated by figures given by C. B. Veal, Consulting Engineer, in an address presented at the Annual Spring Conference of New England Student Branches of the American Society of Mechanical Engineers, Yale University, New Haven, Conn., May 9, 1947. He said, "The current annual expenditure for research and development in the United States is estimated at a billion dollars—about three times the corresponding figure immediately preceding World War II. The Government has enlarged its share in the total expenditure from 20 percent in 1940 to 50 percent currently. In round figures, during this period, Government expenditures in research increased sevenfold, from $70,000,000 to $500,000,000. Industry's increase, while not so spectacular, is still formidable, from $240,000,000 to $500,000,000 or twofold."

Competition Stimulates Research

From 1925 to 1941, according to America's Needs and Resources, the number of washing machines per hundred wired homes increased from 21 to 65 but the harmful results on the laundry industry were not nearly as serious as these figures might indicate it would be. Fearing washing machine competition and faced with new problems as new fabrics were placed on the market such as rayon and mixtures of rayon with other fibers, the laundry industry sought a solution through research. Also national co-operative advertising campaigns were conducted.

"Our new problems and fear of washing machine competition," one laundry manager stated in the 1920's, "have made virtually a new industry out of what was nothing to be proud of a generation ago. Laundries

have been modernized. They are doing more business than ever before, the laundry owner has become a better business man than he ever was before and we have plants we are glad to have the people see. When prospective competition forced more and more dependence upon research it did the industry a great deal of good."

"And no more putting 'P.S. YOU LUCKY STIFFS!!' at the ends of these dividend declarations, Miss Glamm!"

JEFFERSON MACHAMER

Research Will Change Demand

There is little question that research will influence demand to a much greater degree in the future than it has in the past. With industry spending 20 times as much on research as it did in 1920 and with expenditures tending to increase with the years, with some companies spending as much as five percent of their gross sales, research is bound to change demand to a greater and greater degree in the future. The effect of research, of course, is not quickly realized and some things which are developed fail to come into as general use as might be expected.

Toward the end that electric current could be generated at lower costs some mercury boilers were installed by power companies. These boilers permitted a considerably higher temperature at the turbines than was then practicable with steam. Efficiency of the power plant was increased but the mercury boiler has never been used extensively because ways were found to build boilers which would permit of steam pressures high enough to obtain the desired temperatures. Among new methods of heating which have been developed are the heat pump driven by electric motors or other power and the anthratube, a new method of burning coal automatically. Whether or not either or both of these will become popular depends, of course, upon whether they work out as well in actual service as expected and whether or not something which will serve the purpose better is developed.

Hard to Determine Supply

In other words, research makes future demand uncertain which in turn means that supply and demand have to be watched with greater care than ever before so that supply never will become excessive. In some lines of business research has increased the difficulty of determining exactly what the supply is. Take food products, for example. The supply on hand includes quantity being produced, quantity held by processors, inventories of wholesalers and of retailers and also of the consumer. It is not so difficult to determine the total supply on down to the consumer but deep freeze units are going into homes, deep freeze lockers are being rented to consumers. Foods which could not be preserved as well and for as long a few years ago are going into deep freeze storage. When statistics show the consumption of any kind of food considerably larger than normal it would be helpful to know just how much of it is being stored in homes and how much actually is being consumed.

Consumer Inventory Important

This consumer inventory can play an important part in causing a sudden reduction in demand not only in food but in other goods as well. There is a family which started married life with some $25 worth of canned and packaged food which were received at a shower. These people have continued to maintain the inventory except during the rationing period. The cabinet in which the food is stored is now full again. There is another family of two people with one deep freeze unit in the home and plans call for another. For some time now one or more deep freeze lockers have been rented by this family. It would appear that the food now being stored by these two people would last them for months, perhaps for a year or more if nothing new was bought in the line of what is stored.

It is easy to see, therefore, that with facilities in the home for storing virtually any kind of food and doing so in large quantities there can be a tremendous drop in demand without anybody going short on food to bring about that drop. Such facts indicate the importance of watching supply and demand with just as much care as possible and above all reducing all inventories to the minimum.